



Balancing Freebies and Welfare

For Prelims: [Subsidies](#), [RBI](#), [Health Insurance](#), [Purchasing Power](#), [Public Distribution System \(PDS\)](#), [Directive Principles of State Policy \(DPSP\)](#), [Fiscal Responsibility and Budget Management \(FRBM\) Act, 2003](#), [Off-budget Borrowings](#).

For Mains: Debate over freebies and welfare and their impact on the economy.

[Source: TH](#)

Why in News?

There is a **rising trend** among the **political parties** to promise a barrage of [freebies](#) or [subsidies](#) to lure the electorate as seen in the **Delhi Assembly elections 2025**.

- **Electoral freebies** (or "revdi culture") are debated—some see them as **harmful to development**, while others view them as essential for **socio-economic progress**.
- The [RBI](#) defines 'freebies' as **"a public welfare measure that is provided free of charge."**

How Freebies Help in Socio-economic Progress?

- **Women Empowerment:** Cash transfers to women boost **financial independence**, decision-making, and **reduce dependency** on family members for **immediate needs**.
- **Enhancing Human Capabilities:** Welfare schemes like **free food** and [health insurance](#) align with Amartya Sen's "[capability approach](#)," enhancing **dignity, immunity**, and reducing healthcare burdens.
- **Boosting Consumer Spending:** [Direct cash transfers](#) boost demand, enhance [purchasing power](#), and stimulate local economies through increased spending.
- **Poverty Alleviation:** Food security schemes, like the [Public Distribution System \(PDS\)](#) and [Mid-Day Meal](#), ensure basic sustenance, **preventing extreme poverty**.
 - Targeted welfare measures help **bridge the gap between rich and poor**, fostering [inclusive growth](#).
- **Long-Term Benefits:** Poor health causes personal suffering and strains public resources by raising healthcare demand. Early investment in nutrition brings **long-term benefits** for individuals and society.

How Freebies Can Harmful for Development?

- **Rising Revenue Deficit:** Freebie-driven spending increases the [fiscal burden](#), leading to a decline in the revenue surplus of States.
 - E.g., Delhi's revenue surplus dropped by **35% between 2022-23 and 2024-25**.
- **Higher Subsidy Expenditure:** RBI warns that unchecked subsidies **divert funds** from infrastructure, healthcare, and education, with annual costs rising by **Rs 10,000- 12,000 crore due to new freebies**.

- **Increased Tax Burden:** Governments may **raise taxes to cover rising government expenditure**, potentially reducing disposable income and **hurting middle-class consumption**.
- **Crowding Out Investments:** Excessive expenditure on freebies could **crowd out the resources** available and hamper states' capacity to build critical social and economic infrastructure.
- **Potential Credit Default Risks:** Worsening fiscal health affects states' **ability to borrow** and **higher debt servicing costs** may increase credit default risks.
 - It may **not boost demand** because people **save more** in the present, expecting **future taxes** to cover expenses on government borrowing (**Ricardian Equivalence**).
- **Distort Decision Making:** Some argue that freebies amount to **bribery** and discourage voters from making **informed choices**.

What is the Judicial Stand on Freebies?

- **S. Subramaniam Balaji Case, 2013:** The **Supreme Court** ruled that freebies fall within **legislative policy** and are **beyond judicial scrutiny**. It emphasized that certain freebies align with the **Directive Principles of State Policy (DPSP)**.
- **Expert Panel on Freebies:** In 2022, a **PIL** claimed that freebies **undermine free and fair elections**, proposing an **expert panel** to gather stakeholder recommendations.

How Freebies Differ From Welfare Schemes?

Criteria	Freebies	Welfare Schemes
Conceptual Distinction	Goods or services provided free of charge, often for political gain .	Government initiatives for social and economic upliftment .
Merit vs. Non-Merit Goods	Non-merit goods like TVs, laptops, mixer grinders , and cash handouts.	Merit goods like education, healthcare, food security , and rural employment.
Socio-Economic Impact	Provides short-term benefits but lacks structural economic improvements.	Reduces poverty, improves living standards, and enhances productivity .
Fiscal Sustainability	Can lead to excessive borrowing and revenue deficits.	Budgeted with policy backing for economic inclusion.
Political Motivations	Often distributed before elections to influence voters .	Aimed at structural development with long-term policy planning.
Implementation Challenges	Distributed indiscriminately , sometimes benefiting non-needy sections .	Essential for addressing inequalities .
Accountability and Governance	Lacks transparency , leading to financial mismanagement.	Subject to fiscal planning, coordination, and oversight .

Note:

- **Merit goods** are goods and services that have **positive externalities**, meaning they benefit **not just individuals but society as a whole**. Education, Healthcare, Food Security etc.
- **Demerit goods** are goods and services whose **consumption leaves a negative impact** on its consumer and on others in the society. E.g., **alcohol**.

Click Here to Read: [What is the Ethical Perspective on Freebies?](#)

Way Forward

- **Fiscal Reforms:** Strengthen the **Fiscal Responsibility and Budget Management (FRBM) Act, 2003** to prevent reckless fiscal spending.
 - Implement **time-bound and well-targeted subsidies** to ensure sustainable social welfare.

- **Defining Welfare and Freebies:** Define policy guidelines to **differentiate essential welfare from electoral freebies**, using social utility, long-term impact, and fiscal sustainability as criteria.
- **Strengthening Institutional Mechanisms:** Strengthen financial regulators to **monitor public spending** and improve tracking of **off-budget borrowings** and **hidden subsidies** (e.g., Underpricing of electricity).
- **Balancing Welfare and Fiscal Prudence:** Focus on **education, healthcare, and job creation** for economic stability, ensuring subsidies and social schemes promote capacity-building over dependency.

Drishti Mains Question:

Discuss the socio-economic impact of electoral freebies in India. How do they differ from welfare schemes?

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