

6th Aug 2022 Sansad TV Perspective: Freebies Culture & Economy

In the series Sansad TV Perspective, we bring you an analysis of the discussion featured on the insightful programme 'Perspective' on Sansad TV, on various important topics affecting India and also the world. This analysis will help you immensely for the IAS exam, especially the mains exam, where a well-rounded understanding of topics is a prerequisite for writing answers that fetch good marks.

In this article, we feature the discussion on the topic: Freebies Culture and Economy.

Anchor: Vishal Dahiya

Guests:

1. Amarjeet Sinha, Former Advisor, PMO
2. Sandeep Phukan, Senior Journalist

Context: Recently, after hearing a plea against the practice of political parties promising freebies during elections, the Supreme Court suggested an apex body of experts to look into the pros and cons of freebies as they affect the economy significantly.

Highlights of the discussion:

- Scope and contents of freebies.
- Freebie as a relative concept - Difference between stimulus packages and subsidies.
- Factors to be considered while providing freebies.
- Pros and cons of freebies.
- Way forward on addressing the issue of freebies - electoral reforms and better governance.

Introduction:

- The Supreme Court recently suggested an expert body involving members from the Finance Commission, Niti Aayog, ruling and opposition parties, the RBI and other stakeholders to suggest measures to control freebies by political parties during campaigns.
- Prime Minister Narendra Modi while pointing to the ever-growing dues of power distribution companies raised his concerns about the practice of using freebies for votes at the cost of long-term development. He termed the culture of subsidies as "a serious disorder" in Indian politics.
- As per the study, the expenditure on various freebies announced by the state governments in their latest budget speeches ranges from 0.1 - 2.7 % of GSDP for different states.

What constitutes a Freebie:

- Cash transfers/financial assistance, utility subsidies, loan or fee waivers and interest-free loans are the major components of freebie culture.
- This culture of freebies is not new, it has been prevalent in Indian polity in the name of socialism for ages.
- From free television to free laptops, Indian politicians promise free goods to attract prospective voters.
- This culture has gained momentum in recent years with the political parties being innovative in their offerings as the 'traditional free water and electricity' is no longer sufficient as election goodies.

Freebie as a 'relative term':

- Developing nations to grow faster with public welfare need to prioritize their spending as democracy basically caters to the voters.
- As seen in the 'East Asian Miracle', development policy is mainly based on human development and a proactive state.
- India has a considerable deficit in infrastructure and asset base of the poor in terms of housing, electricity, cooking gas, sanitation, roads and credit availability.
- Anything which removes the asset deficit of the poor/deprived class adds to the overall economic activity and to a more equitable and inclusive society and development. Therefore, those policies are a necessity and cannot be generalized as a freebie.
- Similarly, tax incentives and loan write-offs provided to companies are termed as 'stimulus packages'. Even though they affect government revenues, these packages help in creating jobs and increasing productive capacity which spurs the economy.
- So, there is a thin line between welfare politics and freebies and it becomes dangerous when the public debt is high even to provide necessary packages.

Drawbacks of Freebie Culture:

- RBI in its annual report titled 'State Finances: A Risk Analysis' has warned that rising subsidy burdens have stretched state government finances already hit by the pandemic.
- It warned of rising expenditure on non-merit freebies, expanding contingent liabilities, and the ballooning overdue of discoms as new sources of risks.
- Freebies pose fiscal sustainability challenges. For example, Rajasthan, Kerala and West Bengal are projected to exceed the debt-GSDP ratio of 35% by 2026-27.
- The promise of irrational freebies before elections unduly influences the voters and affects free and fair elections.
- This leads to social inequalities. For example: With the Rajasthan government's decision to revert to the old pension scheme for its employees, just 6% of the population captures benefits as

high as 56% of the pension and salary expenditure.

Way Forward:

- The impact of freebies on the economy must be understood and connected with the taxpayer's money.
- The difference between subsidies and freebies shall be justified based on socio-economic conditions and end results.
- Putting in money where it delivers more results. For example: Credit provided for the development of self-help groups results in better schooling and employment, in turn, increasing the participation of women in the workforce which attracts more investment. Therefore, interventions given at the basic stage lead to better transformation than freebies provided at the latter stage.
- More focus on the grassroots level by strengthening Panchayat Raj institutions to improve governance.
- Priority expenditure areas have to be defined when there is a resource deficit. Government expenditure has to be judicious in providing access to health, education, and other sectors to uplift the poor to compete better with others in society.
- Electoral reforms - bringing freebies under the Model Code of Conduct and regulating manifestos by the Election Commission of India.

Conclusion:

The recent economic crisis in Sri Lanka is a reminder of the crucial importance of public debt sustainability. Freebies reduce the fiscal space available for social sector expenditure. They exert more pressure if they are financed through market borrowing. Therefore, it is crucial for the state governments to reprioritise their expenditure to achieve optimum long-term welfare advantages by making sure that the beneficiaries get empowered permanently and stop using these freebies.