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Public Freebies and its Impact on the Economy, Productivity and Democracy in India

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Abstract:- Freebies are public welfare measures, goods or services, offered free of cost by the government. It is a well-established phenomenon that every election season, political parties across the country make ambitious commitments in a tender for electoral success. These political parties with an objective to win elections promise various freebies like electricity, water and transportation services and others. High powered subsidies not only jeopardise a State's fiscal health, but also put substantial opportunity costs, limiting the funding available for other social programmes. For example, In the budget allocations of the state of Karnataka health and education are much lower than the average allocations of funds in these sectors by all other States of the country.
Keywords: Freebies, welfare schemes, fiscal deficit, economic growth, election

Introduction:

Freebies are public welfare measures, goods or services, offered free of cost by the government. Freebies have both a positive and a negative impact on the economic growth of a nation. Freebies can turn out to be quite helpful for the economic growth of the state, but only if it's properly planned and characterized. If it's not properly planned, it can result in a huge barrier to economic growth. If a government is distributing freebies among its citizens, then they are spending a huge sum of revenue from the government treasury. The respective government must have enough funds, otherwise it suffers a debt. Freebies may have serious economic impact. It undercut the basic framework of macroeconomic stability. For example in the case of Punjab, the speculation is that the promise of freebies is going to be an additional impact of 3% of GSDP. Freebies may distort expenditure priorities. For instance, Rajasthan's decision to revert to the old pension scheme is regressive because 6% of the population, which is made up of civil servants, stands to benefit from 56% of the state's revenues. Freebies as a revenue expenditure accounts for no or negligible capital formation in the economy which cannot generate future returns to the government. Rise in revenue expenditure and no capital formation cumulatively widen up the fiscal deficit of the government. Again freebies can make people less productive. Welfare schemes launched by the government are aimed at improving not only the social and economic security of people but also contributing to the economy of India. Schemes like Public Distribution System is meant for the welfare of the marginalized sections. But the question arises when rice grain provided for Rs.1/KG under ANNA (Affordable Nutrition & Nourishment Assistance) scheme in Assam is a legitimized form of freebie?

In Assam particularly there are various welfare schemes like Orunudoi Scheme, Saubhagya Scheme for free electrification, Pradhan Mantri Ujjwala Yojna for free LPG connections,Pradhan Mantri Jan Dhan Yojana, Majoni Scheme, Arundhati Gold Scheme, Pragyan Bharti Scooty Scheme, Assam Micro Finance Incentive and Relief Scheme, Assam Farm Loan Waiver Yojana, etc. The current study intends to study if the government welfare schemes are partly or wholly form of public freebies. The concentration of the study is to find how these schemes are affecting the economy and productivity of factors specially the labours.

Review of literature:

Reserve Bank of India report in 2022 defines, freebies as "A public welfare measure that is provided free of charge". RBI further added that freebies are different from the public/merit goods such education and health, which has long-term benefits in future.

"Legitimate versus Distortionary Freebies'',(Sharma & Sarma, 2022), the authors classified freebies into two broad categories, namely legitimate freebies and distortionary freebies. Legitimate freebies have a significant positive impact on the well-being of vulnerable sections of the population. In contrast, distortionary freebies have an adverse impact on fiscal health, resource utilisation, and resource allocation and can distort economic development. "Freebies" expenses are revenue expenditure. Revenue deficit is a major component of fiscal deficit. Both the union and state governments have revenue deficits that are funded by borrowing. "Freebies" may create a vicious cycle of poor fiscal management if it is not managed properly. Freebies, in the form of free power and water in general, lead to over exploitation or mis-utilization of resources. For example, provision of free electricity increases its consumption."Freebies" such as free or subsidized foods or direct income transfer may weaken one's willingness to work and earn money as food comprises around 45% of the cost of the consumption basket. Labour force participation rate in India is one of the lowest, at around 49% as against the global average of 60% and it has even declined to some extent. So, the question is whether freebies and other social security measures enabling the labour to meet their survival, have played a role in the decline in labour force participation rate.

"Freebies Debate: Are They Road to Economic Disaster?"(Ojha, 2022)mentioned that expenditure which brings economic benefits, such as the public distribution system, employment guarantee schemes, and states' support for education and health are considered welfare expenses. On the other hand, the provision of free electricity, free water, free public transportation, waiver of pending utility bills and farm loan waivers are often regarded as freebies. As per estimates, expenditure on freebies range from 0.1 - 2.7% of GSDP for different states. The freebies have exceeded 2% of GSDP for some of the highly indebted states such as Andhra Pradesh and Punjab. Moreover, as per the latest data from the Comptroller and Auditor General of India (CAG), the state governments' expenditure on subsidies has also grown at 12.9% and 11.2% during 2020-21 and 2021-22.

"Let's debate freebies",(Aiyar)mentioned that prevalence of "freebie politics" is really an indictment of our economic policy and the abject failure to build a welfare state that invests in human capital. India's structural transformation, particularly since 1991, has been slow and unique. Despite abundant low-skilled labour, our growth trajectory has mostly skipped manufacturing, growing instead on the back of a far smaller, high skilled services sector.

Objectives of the study:

The general objectives of the study will be to analyse the economic impact of public freebies. The specific objectives of my research will be:

- To analyse if the freebies in the form of legitimate welfare spending causing fiscal deficit.
- To analyse if the government funds as freebies are channelizing to unproductive and economically non-viable activities.
- To study if the freebies reducing financial credibility of the state.
- To assess the productivity of labour. Do labourers losing incentive to work due to availability of the freebies? To study how it's affecting the agricultural and manufacturing sector.

Methodology:

This study is descriptive in nature and purely based on secondary sources of data such as Government Documents, state official report, surveys, Books, Journals, Articles and other related works. The method of collecting data has been more qualitative in nature.

What is the Difference between Freebies and Welfare?

There is no clear cut division between freebies and welfare, but a general way we can distinguish them by their long-term impacts on beneficiaries and society in broader sense. Welfare schemes have a positive impact, on the contrary freebies can create distortions or dependency on others.

Freebies are goods and services given free to the people without any charge. They are generally short term measures aimed at benefiting a targeted population. These freebies are often seen as a way of bribing voters with populist promises. Some common examples of freebies are free electricity, Golds, laptops, TVs, scooters, bicycles, sewing machines etc.

On the contrary, Welfare schemes, are well thought plans that aim to benefit the target population and to improve their standard of living and access to the basic resources. They are typically aimed at fulfilling the constitutional obligations towards citizens (DPSP's) and often seen as a way of promoting social justice, equity and equality as well as human development and brings inclusive growth in the society. Some common examples of welfare schemes are Anna Antodaya Yojana (AAY) , Priority Households (PHH), PM Garib Kalyan Yojana (PMGKY) , Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), Mid Day Meal Schemes, etc.

Why Freebies can be considered as a backhanded Double-Edged Sword?

Merits of Freebies -

- *Economic Growth:* Freebies can exhilarate economic growth by increasing the productivity, especially in less developed regions of the country. For example, freebies such as bicycles, sewing machines, laptops, etc can enhance the mobility, skills, and income opportunities of the poor, downtrodden and rural population.

  A NITI Aayog report stated that freebies such as bicycles given to school girls in West Bengal and Bihar increased their retention and enrollment rates, reduced dropout rates, and improved their learning outcomes.
- *Public Outreach and Engagement:* Government freebies can increase public trust, satisfaction, and good governance as they demonstrate its responsiveness and accountability to the people. Moreover, freebies can create opportunities for feedback and cooperation between the government and the citizens, enhancing transparency, accountability and democracy in real sense.

  A Centre for Policy Research (CPR) study found that freebies such as laptops, bicycles, loan waivers and cash transfers had a positive impact on voter turnout, political awareness, public outreach and engagement with the government in the states of Uttar Pradesh and Tamil Nadu.
- *Social Welfare*: Freebies such as food, education, health, electricity, etc can provide social welfare to the poor and marginalized sections of society. For instance, freebies such as uniforms, school bags, mid day meals, textbooks, or basic necessary health facilities can improve the literacy, health conditions, and quality of life of the poor, needy, downtrodden and vulnerable sections of the society.

  A World Bank study estimated that freebies such as food subsidies in India under the Public Delivery System (PDS) has reduced the poverty and mal- nutrition ratio by 7% in 2011-12.

  A survey by the National Sample Survey Office (NSSO) revealed that freebies such as Health insurance under the Rashtriya Swasthya Bima Yojana (RSBY) reduced the out-of-pocket expenditure and catastrophic health hazards for Below Poverty Line (BPL) households.

  Income Equality: Freebies can reduce income inequality and poverty by redistributing wealth and resources more equitably. For example, freebies such as loan waivers to Self help groups and farmers, or cash transfers can empower the indebted, or low-income households by giving them access to assets, credit, or income support.

  A report by the RBI analysed that loan waivers relieved the debt burden and improved the credit worthiness of distressed farmers.

Demerits of Freebies -

- *Free Rider Issues and Dependency Syndrome:* Freebies can create dependency and entitlement among the recipients, who may expect more freebies in the near future and become less motivated to work hard or pay taxes. For instance, freebies such as rice, wheat, pulses at Rs 1/3 per kg or free electricity can reduce the sense of accountability and responsiveness of the beneficiaries and make them dependent on external aids.

A survey by the Association for Democratic Reforms (ADR) showed that 41% of voters in the state of Tamil Nadu considered freebies as an important factor in voting.

- *Fiscal Burden:* Freebies can have adverse impacts on the fiscal health and macroeconomic stability of the state or the country, by increasing public expenditure, subsidies, deficits, debts, and inflation. For example, freebies such as farm loan waivers, free monthly allowance to women, allowances to unemployed youths, or various pension schemes can strain the budgetary resources of the government and affect its ability to invest in other developmental sectors.

An RBI report analyzed that freebies such as pension schemes under the Indira Gandhi National Old Age Pension Scheme (IGNOAPS) for senior citizens posed a financial risk for the central and state governments, by increasing pension liability with an ageing population.

- *Resource Misallocation:* Freebies can distort the expenditure priorities and allocation of resources, by diverting funds from more productive and essential sectors such as infrastructure, agriculture, etc. In this case, freebies such as mobile tablets, laptops, TV's or air conditioners, Gold, etc. can consume a large share of public spending and crowd out investment in infrastructural public goods such as roads, bridges, irrigation systems, or power plants.

A report by the NITI Ayog criticised that freebies such as laptops given by the Uttar Pradesh government diverted funds from more urgent needs such as improving teacher quality, school infrastructure, or learning outcomes.

- *Quality Compromise*: Freebies can lower the quality and competitiveness of the goods and services that are given for free. For example, freebies such as bicycles or laptops may be of inferior quality compared to those available in the market or those produced by other countries.

A report by the Centre for Development of Advanced Computing (CDAC) assessed that freebies such as laptops given by various state governments were based on obsolete technology and software, which limited their functionality and performance.

- *Impact on Environment:* Freebies can have a negative impact on the environment, and can pose as a barrier towards sustainable development by encouraging overuse and wastage of natural resources. For example, freebies such as free electricity, free water, or free gas cylinders can reduce the incentives for conservation and efficiency and increase pollution levels and carbon footprint.

A report by the Comptroller and Auditor General of India (CAG) revealed that free electricity for farmers in Punjab led to overuse and wastage of power, poor quality of service delivery by the state power utility and low tax compliance in the state.

- *Against Free and Fair Election:* The disbursement of irrational freebies from public funds before elections inordinately influences the voters, bothers the level playing field and debauches the purity of the poll process. It amounts to an unethical practice that is alike to giving bribes to the electorate.

Moreover, data from the Comptroller and Auditor General of India (CAG) shows that the State governments' expenditure on subsidies has increased by 12.9 percent in 2020-21 and 11.2 percent in 2021-22, after contracting in 2019-20. Moreover, the proportion of subsidies in the states' total revenue expenditure has grown to 8.2 percent in 2021-22 from 7.8 percent in 2019-20. States like Jharkhand, Kerala, Odisha, Telangana and Uttar Pradesh have witnessed the largest rise in subsidies over the last three years. Meanwhile, states like Gujarat, Punjab and Chhattisgarh spent more than 10 percent of their total revenue expenditure on subsidies."[V Nivedita]. The RBI warned in June 2022, that "new sources of risks have emerged in the form of rising expenditure on non-merit freebies, expanding contingent liabilities, and the ballooning overdue of DISCOMs."[Aiyar S]

According to data published in Bloomberg Quint in January 2022, the central government's subsidy bill on food, petrol and fertilisers has increased to 3 percent of GDP in 2020-21 from 1.1 percent in the previous year.[Nahata P.]. Some analysts also observe that the Central government engages in 'invisible freebies' like writing-off huge loans of big corporations, bailing out banks from corporate bad loans, and cutting down of the base corporate tax rate as it did in September 2019 from 30 percent to 22 percent.

Further, Banks have written off Rs 11.17 lakh crore bad loans from their books in the last six years till financial year 2021-22, As per RBI data, public sector banks (PSBs) and scheduled commercial banks (SCBs) wrote off an aggregate amount of Rs 8,16,421 crore and Rs 11,17,883 crore respectively during the last six financial years.

Way Forward

- *Drawing a Line Between Welfare and Freebie:* Freebies must be understood from an economic perspective and connected to taxpayers' money. Differences between freebies and subsidies are also essential since subsidies are justified to meet specially targeted benefits with specific demands. However, the freebies are of quite different.
- *Clear Rationale and Indication of Funds:* Political parties should be required to disclose the financing and trade-offs of freebies to the voters and the Election Commission of India before announcing them. This would include the impact on fiscal balance, specifying the sources of revenue, sustainability of freebies and the opportunity cost of public spending.
- *Empower the Election Commission of India:* Election Commission of India (ECI) should be provided more powers to regulate and monitor the announcement and implementation of freebies by political parties during elections. This would provide ECI more powers to impose penalties on political parties, de-register many political parties, or take contempt action for violating the model code of conduct or the court orders on freebies.
- *Voter Awareness*: In a democracy, the power to block or allow the march of freebies rests with the voters. Educating the voters about the economic and social consequences of freebies and encouraging them to demand performance and accountability as well as transparency from political parties is the need of the hour. This would include creating awareness campaigns, civil society initiatives, voter literacy programs, and media platforms to inform and empower voters to make rational and ethical choices.
- *Judicial Intervention:* A constructive debate and discussion in parliament is difficult since the freebie culture has an impact on every political party, whether directly or indirectly. Therefore, judicial involvement is also required in this regard.
- *Focus on Inclusive Development:* It would address the root causes of poverty, inequality, and exclusion that make people vulnerable to freebies. Inclusive development would also create a more productive environment for economic growth and social progress and prosperity, which would benefit all the sections of society in the long run. Therefore, inclusive development can be a more effective and desirable alternative to the freebies.

Conclusion:

The domain of public freebies have serious consequences on the economy and polity of a nation. It is a concerning fact in the sense that there can occur long term negative effects and can affect fiscal position of the economy as well as the fair practice of democracy. Public schemes have both welfare effects and distortionary effect based on the need and importance of the subject concerned. Welfare schemes like mid-day meal, PDS, MGNREGA, Atal Amrit Abhiyan have played an important role in the improvement of both rural and urban poor lives in the country; commonly, infact ensuring their very survival. However, many of such welfare schemes have negative impact as they are promised or delivered based on electoral considerations. They can harm the public exchequer specially in terms of trade - off with long term development measures. It can also disincentivise labourers and productivity of them. Therefore, clear rationalisation and channelisation of funds is necessary to allocate the resources where it needed most rather than on any welfare schemes that attracts electorate vote.

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