



## Freebies Vs Economic Growth

### What is the issue?

N.K. Singh, the chairperson of the 15th Finance Commission, warned about how the race to provide freebies to voters could be a quick path to fiscal disaster.

### How do freebies hamper the economic growth?

- **Macroeconomic stability**- Freebies undercut the basic framework of macroeconomic stability.
  - In the case of Punjab, some have speculated that the promise of freebies is going to be an additional impact of 3% of GSDP.
- **Expenditure priorities**- The politics of freebies 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.
- **Social inequalities**- The issue of intergenerational equity leads to greater social inequalities because of expenditure priorities being distorted away from growth-enhancing items.
- **Unsustainable**- Provision of free power, water, etc. distracts outlays from environmental and sustainable growth, renewable energy and more efficient public transport systems.
- **Distortion of agricultural priorities**- The depleting supply of groundwater is an important issue to consider when speaking of freebies pertaining to free consumption goods and resources.
- **Manufacturing**- Freebies lower the quality and competitiveness of the manufacturing sector by detracting from efficient and competitive infrastructure.
- **Subnational bankruptcy**- It raises the question of whether the time has come to consider recourse mechanisms like subnational bankruptcy.

### Do freebies have any productive role?

- **Constitutional provision**- As per Article 282, the Union or a State may make any grants for any public purpose.
- **Better workforce**- Sometimes, freebies build a healthier and a stronger workforce, which is a necessary part of any growth strategy.
  - For example, the MGNREGA type of spending and subsidy in the form of food ration schemes.
- **Increased productivity**- Subsidies going into education, such as for laptops have now become necessities for increasing productivity, knowledge and skills.

## What is needed in this respect?

- **Differentiation-** We need to distinguish between the concept of merit goods and public goods.
- The strengthening of the public distribution system, employment guarantee schemes, support to education and enhanced outlays for health are considered to be desirable expenditures.
- **Sustainability-** It's not about how cheap the freebies are but how expensive they are for the economy, life quality and social cohesion in the long run.
- **Revisiting the Seventh Schedule-** Most of the centrally sponsored schemes are subjects which are classic subjects in the domain of the states, such as employment, food, education.
- So the Seventh Schedule which classifies the subjects into three lists requires a revisit.
- **Revisiting the Article 282-** The entry under Article 282 of the Constitution has been used and misused for having all the centrally sponsored schemes.

### References

1. <https://indianexpress.com/article/opinion/columns/freebies-are-a-passport-to-fiscal-disaster-7879244/>
2. <https://www.hindustantimes.com/india-news/competitive-freebies-politics-calls-for-considering-sub-national-bankruptcy-n-k-singh-10165039043882html>
3. <https://www.thehindu.com/opinion/op-ed/are-freebies-affecting-the-economic-growth-of-india/article65363024.ece>



**IAS PARLIAMENT**  
*Information is Empowering*

A Shankar IAS Academy Initiative