



Freebie Culture

For Prelims: Irrational Freebies, Public Distribution System, Fiscal Responsibility and Budget Management (FRBM), Finance Commission

For Mains: Freebies and its implication on Economy

Why in News?

Recently, the [Supreme court](#) asked the central government whether distributing irrational freebies during election campaigns is financially viable.

- It also referred to use the expertise of the [Finance Commission](#) in curbing the irrational poll freebies.
- According to [Election Commission of India](#), whether such policies are financially viable or its adverse effect on the economic health of the State is a question that has to be considered and decided by the voters of the State.

What are Freebies?

- [Political parties promise to offer free electricity/water supply, monthly allowance](#) to unemployed, daily wage workers, and women as well as gadgets like laptops, smartphones, etc. in order **to secure the vote of the people.**
 - The states have become habituated to giving freebies, be it in the form of loan waivers or free electricity, cycles, laptops, TV sets, and so on.
- Certain kinds of expenditure that are done under populist pressures or with elections in mind may be questionable.
 - But given that in the last 30 years there has been [rising inequality](#), some kind of **relief to the population in the form of subsidies may not be unjustified** but actually necessary for the economy to continue on its growth path.

Why there is a Need for Freebies?

- **Facilitates Growth:** There are some examples that show that some expenditure outlays do have overall benefits such as the [Public Distribution System, employment guarantee schemes, support for education](#) and **enhanced outlays** for health, particularly during the pandemic.
- **Helps the Lesser Developed States:** With the states that have a comparatively lower level of development with a larger share of the population suffering from poverty, **such kinds of freebies become need/demand-based** and it becomes **essential to offer the people such subsidies for their own upliftment.**
- **Essential for Fulfilling Expectations:** In a country like India where the states have (or don't have) a certain level of development, upon the emergence of the elections, there are **expectations from the part of people which are met by such promises** of freebies.
- **Helps Lesser Developed States:** The states which lack development, **freebies become need/demand-based** and it becomes **essential to offer the people such subsidies for their**

own upliftment.

What are the Drawbacks of Freebies?

- **Macroeconomically Unstable:** Freebies undercut the basic framework of macroeconomic stability, the politics of freebies distorts expenditure priorities and outlays remain concentrated on subsidies of one kind or the other.
- **Impact on States' Fiscal Situation:** Offering freebies, ultimately, have an impact on the public exchequer and most of the states of India do not have robust financial health and often have very limited resources in terms of revenue.
- **Against Free and Fair Election:** The promise of irrational freebies from public funds before elections unduly influences the voters, disturbs the level playing field, and vitiates the purity of the poll process.
- **A Step Away from the Environment:** When the freebies are about giving free power, it would lead to overuse of natural resources and focus from renewable energy system will also get distracted.

Way Forward

- **Realizing Economic Impacts of Freebies:** It is not about how cheap the freebies are but how expensive they are for the economy, life quality, and social cohesion in the long run.
 - We must strive instead for a race to efficiency through laboratories of democracy and sanguine federalism where states use their authority to harness innovative ideas and solutions to common problems which other states can emulate.
- **Differentiating Subsidies and Freebies:** There is a need to **understand the impacts of freebies from the economic sense** and connect it with the taxpayer's money.
 - It is also essential to distinguish between subsidies and freebies as subsidies are the justified and specifically targeted benefits that arise out of demands.

UPSC Civil Services Examination Previous Year Question (PYQ)

Prelims

Q Consider the following actions by the Government: (2010)

1. Cutting the tax rates
2. Increasing the government spending
3. Abolishing the subsidies in the context of economic recession,

which of the above actions can be considered a part of the “fiscal stimulus” package?

- (a) 1 and 2 only
- (b) 2 only
- (c) 1 and 3 only
- (d) 1, 2 and 3

Ans: (a)

Exp:

- **An increase in public spending or a reduction in the level of taxation might be done by a government in order to encourage and support economic growth.** Most government bailout packages offered to various businesses can be considered a form of fiscal stimulus. **Hence, 1 and 2 are correct.**
- A ‘stimulus’ is an attempt by policymakers to kick start a sluggish economy through a package of measures. A ‘monetary stimulus’ will see the central bank expanding the money supply or reducing the cost of money (interest rates) to spur consumer spending. A ‘fiscal stimulus’ entails the Government spending more from its own coffers or slashing tax rates to put more money in

the hands of consumers.

- Abolition of subsidies is a part of rationalizing the expenditure side of the government. This is a step towards fiscal consolidation rather than fiscal stimulus. Hence, 3 is not correct. **Therefore, option (a) is the correct answer.**

Mains

Q. In what way could the replacement of price subsidy with direct benefit Transfer (DBT) change the scenario of subsidies in India? Discuss. **(2015)**

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