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

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