The Freebie Culture

What is the issue?

Concern over freebies (Rewari culture) in Indian politics has recently been expressed by those in the highest offices in the country.

How important are freebies?

> *As per Article 282, the Union or a State may make any grants for any public purpose.*

- **Employment-** Freebies build a healthier and a stronger workforce, which is a necessary part of any growth strategy.
    - Working under MGNREGA can guarantee some assured wages and confers right to life with dignity.
- **Poverty reduction**- There have been studies which showed the poverty-reducing effect of the Public distribution System.
    - The free or subsidised rations under PDS allows foodgrains to be available for cheap for consumers while assuring remunerative prices to farmers.
- **Food security**- Subsidised foodgrains distributed under the PDS contribute to ensuring basic food security.
    - The Pradhan Mantri Garib Kalyan Anna Yojana (PMGKAY) kept many away from the brink of starvation during the novel coronavirus pandemic.
- **Education-** Mid-day meals in schools have been proven to contribute to increased enrolment and retention in schools and addresses classroom hunger.
    - It also resulted in keeping the evil of child labour under control.
- **Women empowerment**- Tamil Nadu government's free bus pass for women has encouraged more women to join the workforce, in turn leading to economically stable families and women's empowerment.
- **Reduction in social evils**- The introduction of free colour television in villages has resulted in decrease in domestic violence and also enabled women's empowerment as women have been able to connect with the outside world through visual media.
- It has ensured self-respect, as women and children are able to watch TV in their houses rather than visit the homes of those who are rich and own TV sets.
- **Increased productivity**- Subsidies such as free laptops have now become necessities for increasing productivity, knowledge and skills.
- The small amounts given to the poor are called 'freebies', while freebies that the rich get through low tax rates and exemptions are referred as 'incentives'.
- **Boost industial growth**- In Kerala, fiscal incentives are given to encourage corporates/entrepreneurs to boost industrial growth.

The Supreme Court, in S. Subramaniam Balaji vs Government of Tamil Nadu (2013) held that as long as public funds were spent based on appropriations cleared by the legislature, they could neither be declared illegal, nor the promise of such items be termed a 'corrupt practice'.

What is the issue with freebies?

- **No revenue**- The government spending the loan money on populist giveaways generate no additional revenue.
- **Debt burden**- This will add on to the growing debt burden.
    - In the case of Punjab, some have speculated that the promise of freebies is going to be an additional impact of 3% of GSDP.
- **Off budgeting**- Much of the borrowing that funds these freebies happens off budget and the debt is concealed to circumvent the FRBM targets.
- **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.
- **Low spending on infra**- The more States spend on transfer payments, the less they have for spending on physical and social infrastructure.
- **Widening inequalities-** The issue of intergenerational equity leads to greater social inequalities because of expenditure priorities being distorted away from growth-enhancing items.
    - The **World Inequality Report 2022** says that the top 1% of India held 22% of the total national income as of 2021.
- **Unsustainable-** Provision of free power, water, etc. distracts outlays from environmental and sustainable growth, renewable energy and more efficient public transport systems.
- **Manufacturing-** Freebies lower the quality and competitiveness of the manufacturing sector by detracting from efficient and competitive infrastructure.
- **Differential tax burden**- The governments seem to rely more on indirect taxes than direct taxes in order to propel more freebies at the cost of the tax payer.
- **Subnational bankruptcy-** It raises the question of whether the time has come to consider recourse mechanisms like subnational bankruptcy.

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.

What about the institutional checks against the freebie culture?

- **Role of Opposition**- The first line of defence has to be the legislature, in particular the Opposition, whose responsibility it is to keep the Government in line.
- **CAG audit**- In practice, it has lost its teeth since audit reports necessarily come with a lag, by when political interest has typically shifted to other hot button issues.
- **Market**- It can signal the health of State finances by pricing the loans floated by

different State governments differently, reflecting their debt sustainability.

What is recent the issue with respect to pharma freebies?

- Dolo offered freebies worth Rs. 1,000 crore to doctors to promote its anti-fever drug.
- **Earlier Court rulings-** The Madras High Court has earlier held that gifting freebies to health professionals is clearly **prohibited by law**, and not allowed to be claimed as a deduction.
- The Court cited and relied upon Regulation 6.8 of the Indian Medical Council (Professional Conduct, Etiquette and Ethics) Regulations, 2002.
- The freebies given to doctors cannot be claimed as a deduction under Section 37(1) of the Income Tax Act, 1961.
- The court held that in a situation where patients' trust is reposed in doctors, having prescriptions manipulated by the lure of freebies is immoral.
- Recently, the Supreme Court has recommended constituting an expert committee comprising representatives of the beneficiaries, Union and State governments, the Finance Commission, NITI Aayog and the RBI to study the issue of freebies.

How can the freebies be regularised?

- **Differentiation-** The 'trickle down' yielded some positive results but it also widened inequality, diminished inclusive growth, and was criticised by economists such as Nobel Laureate Joseph E. Stiglitz.
- We need to distinguish between the concept of merit goods and public goods.
- **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.
- **Revisiting the Article 282-** The entry under Article 282 of the Constitution has been used and misused for having all the centrally sponsored schemes.
- **Amendment of FRBM**- The FRBM acts of the Centre as well as States need to be amended to enforce a more complete disclosure of the liabilities on their exchequers.
- **Imposition of conditionalities**- Under the Constitution, States are required to take the Centre's permission when they borrow.
- **Declaration of financial emergency**- It is important to ensure that the prospect of a financial emergency in case of gross and continuing fiscal irresponsibility can be a realistic one so that the political leadership may fear punishment.

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