

A CRUX BETWEEN FREEBIES AND ECONOMIC DEVELOPMENT WITH SPECIAL REFERENCE TO SOUTHERN STATES OF INDIA: AN OVERVIEW

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Abstract:

These days, giving away free things is a winning electoral tactic in the nation. The latest elections in Karnataka serve as an illustration of this. The goal of the current study is to evaluate the relationship between the nation's economic development and giveaways. The programmes may provide some relief to the impoverished, but they may also have a domino effect on the state coffers. The welfare state should budget its spending in accordance with its revenue; if it uses debt to fund its programmes, prices will rise and the average person will suffer.

Keywords: Freebies, Economic growth, SGDP, Welfare State, YSRCP, TRS

I. INTRODUCTION

An economy or nation is made up of individuals in a variety of financial conditions. While some people enjoy financial stability, others do not, in which case the government administers social schemes to provide simple access to necessities. In India, welfare systems provide subsidised or discounted goods and services to economically disadvantaged people, such as castes. In recent years, the federal government and a few state governments have begun to give things away. Freebies are a hot topic for debate amongst the general public and political parties.

Freebies?

Freebies are goods or services that you receive without having to pay for them, or at no cost. In India, politicians have a history of using giveaways to sway voters. Nowadays, the governments of several states provide their citizens with freebies. Free 200-unit electricity, free meals, free medical care, free schooling, free bus rides for women and children, etc. If not handled appropriately, it can be a blessing for the people but a curse for the government. The average person benefits from freebies because they save money. At the moment, over half of India's workforce earns Rs 372/day in wages. Government handouts are a blessing because daily wagers struggle to make ends meet on their meagre wages.

Politicians frequently use gifts in exchange for votes. To win over voters, a lot of political parties offer free gifts prior to elections. Because they would have to do nothing to obtain them, people would be less productive, which would reduce the GDP of the country. Offering freebies can help or hinder a nation's economy. Given enough thought and direction, giveaways can accelerate India's economic development. If unplanned, it could inhibit economic expansion. For its citizens, the government spends a lot of money on freebies. A country or state cannot avoid debt if it does not have sufficient funds to operate. Freebies are only beneficial if they generate income for the government. All children who receive free, top-notch education from the government may eventually pay higher taxes.

Freebies are usually given to Indians. In certain Indian states, women and children are entitled to free bus fares and free power up to 100 units. The Indian government also provided free food to the underprivileged during COVID-19. Freebies increase a state's budget, hence they don't benefit the populace. The highest court declared in 2013 that expenditure on freebies went over the usual budget. For it to function correctly, it must be founded in necessity. Since healthcare and education are necessities, they should be free. The state budget is strained by things like free electricity and public transit. Therefore, in order to enable citizens to acquire basics at subsidised rates and avoid relying on freebies, it is imperative to develop extra assistance packages that prioritise meeting their fundamental needs. An example in the 'freebies' debate comes from Andhra Pradesh. AP CM visits New Delhi on a regular basis to meet with the Indian Prime Minister. The last time they met, he asked for one lakh crore. AP Freebies are distributed by CM, and his administration says it is fulfilling all of the Navaratnalu (nine pearls) pledges it made prior to the 2019 Assembly elections. Notwithstanding obstacles including the Centre lowering the State's share of central taxes, his government claims to have distributed 1.65 lakh crore as Navaratnalu, or largely direct benefit payments, to citizens over the preceding three years.

II. FREEBIES PROS AND CONS

The second part of the study provides the advantages and disadvantages of the freebies and its economic impact.

| ADVANTAGES | DISADVANTAGES |
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| 1. Freebies have fostered economic growth through public spending, which has long-term enhanced employee productivity. | 1. Macroeconomic stability is undermined by freebies. Freebies undermine this structure since the subsidies will affect the state's fiscal status, which is usually poor. Political spending ruins state finances. States can select how to spend their money, but only when it exceeds insufficient ceilings. FRBM applies when a state borrows past its limit. |
| 2. Depending on the freebies supplied, the state's economy will improve. For example, Tamil Nadu and Bihar distribute sewing machines and bicycles. These state-bought commodities contribute to the sales of their respective industries, at least in terms of supply. | 2. Irrational, if not obscene gifts from public funds are against free and fair elections. Not every political party will have access to public cash, hence it's against fair elections. Political analysts believe that offering gifts is like bribing your own electorate. |
| 3. In a country like India, where states have (or don't have) a certain level of development, people's expectations are met by freebie promises during elections. | 3. Freebies reduce manufacturing quality and competitiveness by detracting from efficient and competitive infrastructure that enables high-factor efficiency. |

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| 4. Freebies will help less developed states' huge populations escape poverty. Freebies are usually need/demand-based. | 4. Once freebies are promised, the government will be obligated to keep its pledge in the next election cycle or outdo their promise, which strains government resources. |
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The Election Commission (EC) extended an invitation to representatives of all recognised political parties on August 12, 2013, to develop criteria on freebies mentioned in election manifestos. Election officials with knowledge of the situation said that political party leaders reacted angrily at the discussion, claiming that it would violate their rights. If we take a look at the two telugu-speaking states that are regularly in the news because of freebies, the YSRCP government in Andhra Pradesh intends to fight legally, while the Telangana Administration is politically battling opposition parties over freebies. The politics of both Telugu states are driven by welfare schemes. Programmes to assist those who are economically and socially challenged have been developed by both the YSRCP and the TRS. According to the Telangana administration, 80% of the state's people are underdeveloped and in need of assistance programmes.

The dispute over giveaways brought attention to the YSRCP government's welfare expenditures. In 2021–2022, the government allocated Rs 17,305 crore to non-DBT initiatives. There were others who chastised the Jagan Mohan Reddy government for giving out handouts in spite of its precarious finances. Similar to TRS in the bordering state, YSRCP uses welfare initiatives to seek reelection. It makes the case that elected governments have the duty to eradicate poverty and to provide employment, healthcare, and education. The party thinks that projects designed only for electoral purposes ought to be referred to as giveaways, but it is disrespectful to the Constitution to apply the same stigma to really important socioeconomic programmes that are put in place to relieve suffering. There were state programmes referred to as "freebies." Freebies like Rythu Bharosa and Ammavodi have been mentioned. Additionally, the YSRCP contended before the Supreme Court that Andhra Pradesh, the state that was created after the 2014 state partition, suffered greatly economically as a result. The successor state received 58% of the merged state's population but only 45% of its income as a result of the unfair reorganisation. The state's policy stalemate from 2014 to 2019 caused numerous important sectors, including agriculture, health, and education, to perform poorly. As a result, the people have trusted the new administration, and it is their responsibility to implement efficient initiatives to lessen the suffering.

According to the YSRCP, government initiatives in areas like health, education, housing, agriculture, women's empowerment, poverty alleviation, and assistance for the elderly and destitute should not be seen as freebies.

III. VIEW OF POLICY MAKERS

Chair of the 15th Finance Commission N.K. Singh issued a warning, stating that voter handouts would result in financial ruin. Freebies undermine macroeconomic stability and hinder economic growth. Some in Punjab forecast that giveaways will distort spending priorities and increase the GSDP by 3%. Rajasthan's decision to go back to the previous pension system is regressive since civil officials, who make up 6% of the population, receive 56% of state funding. Socioeconomic disparities rise as a result of intergenerational equity since growth-enhancing products receive less funding. Free water, electricity, and other resources take money away from renewable energy, public transit, and sustainable development. Distortion of agricultural priorities: When talking about free resources and consumer products, there is a concern about the declining groundwater availability. Freebies reduce

efficient infrastructure, which lowers production quality and competitiveness. It calls into question whether insolvency on a subnational level ought to be taken into account.

Freebies productive?

Public grants may be awarded by the Union or a State pursuant to Article 282 of the Constitution. Freebies might encourage a stronger and healthier workforce, which is crucial for expansion. Examples include subsidies for food rations and MGNREGA spending. Similar to computers, educational subsidies are now necessary to improve knowledge, productivity, and skills.

What's required to balance between Welfare and Economic growth?

Distinguish between public and merit goods. It would be ideal to strengthen the public distribution system, implement employment guarantee programmes, provide support for education, and raise health spending. Sustainability: The cost of the freebies in terms of the economy, standard of living, and social cohesiveness matters more than their apparent low cost. The majority of activities that receive central funding are standard state issues like work, food, and education. There is a need to update the Seventh Schedule, which lists subjects in three lists. All projects that are supported centrally have been justified by utilising Article 282.

There are "extremely strong" lessons to be gained from Sri Lanka's turmoil, according to External Affairs Minister S. Jaishankar. These include budgetary discipline, efficient governance, and rejecting a culture of giveaways. Opposition legislators strongly objected to the government's mention of Telangana and Andhra Pradesh's debt and financial situation during a government presentation, demanding that the government concentrate on the Sri Lanka issue. Modi said this week that free revdis (sweets) are being given out in our nation to solicit votes. "Revdi culture is dangerous for country growth..." The presentation made by Foreign Secretary Vinay Kwatra regarding the situation in Sri Lanka and New Delhi's backing caused a stir. The debt and financial standing of Telangana and Andhra Pradesh following their 2014 split were discussed in the second session.

Recent elections in Karnataka and its economic impact:

State elections in Karnataka are expected to take place in May 2023. The state's economy is greatly impacted by the electoral promises made by political parties. In view of Sri Lanka's and Pakistan's current situation, it is crucial to assess the possible impacts of commitments even in the case of IMF support, as the typical voter might not be aware of the state debt or budget deficit. The state's entire economic health depends on its capacity for financial management. Given that the Karnataka Fiscal Responsibility Act, 2002 (KFRA) limits the fiscal imbalance to 3% of GDP (Gross State Domestic Product), it is critical to comprehend the impact that freebies have on the economy. One of the first states to uphold financial discipline is Karnataka. This is a meek attempt to examine the impact on Karnataka's economy of the main giveaways given by various political parties. The Indian National Congress's (INC) guarantee of 200 KWHs (units) of energy per household per month, or the Gruhahyothi, corresponds to an electricity cost of \$122.50 per month, or 14,430 per household yearly, or 25830 Cr for all families altogether, considering that Karnataka has 1.79 Cr households. With Karnataka's GSDP of 23.33 lakh crore and a fiscal deficit of more than 3% of GSDP, the financial burden of 25830 crore exceeds the KFRA's allowable limit. Furthermore, the cost of this present is double that of the 13,000 Cr. in free electricity provided to farmers. The State Electricity companies are in a dire situation as a result of rising debt. The Karnataka state economy will be further endangered by the additional funding of 25830 Cr provided by the Gruhajyothi campaign pledge, as it

will surpass the state capital budget, exceed the fiscal deficit, and breach the 3% KFRA guideline. The existing pledge to provide rural areas with free electricity valued at 14,700 Cr already places a significant financial burden on state coffers.

The provision of a monthly wage of 2000 to the heads of BPL families, who are women, is the second noteworthy vow made by INC. There are already 1.28 million BPL families, and it would be unfeasible to provide each BPL woman family head \$2,000 a month—that would come to \$30,720 billion annually. The Karnataka State Budget for 2022–2023 had a revenue imbalance of 14,699 crores. To implement the Gruhalakshmi Scheme at a cost of \$30,720 per year, it will be necessary to sacrifice capital expenditure to lower it from 46,955 to 16,235 or increase the revenue deficit to 45,419 from 14,699, implying that no money will be left over for capital or infrastructure expenditure. Furthermore, there is no room for revenue expenditure because committed expenditure represents roughly 90% of revenue receipts. (Medium-Range Budget 2022–2026)

The Economic Survey of Karnataka for FY 2021–22 aims to make Karnataka a trillion-dollar economy by 2032, when India's GDP is expected to exceed 10 trillion dollars. Based on its GSDP, Karnataka's GDP is now just approximately \$260 billion. It is projected to grow at a compound annual growth rate (CAGR) of 15% and reach \$1 trillion by 2032 if the assets are managed appropriately. Last year, its nominal GSDP grew by 14%. It is one of the top five states in India, with over twice the per capita income of the country, at \$4000. Its high income conceals an uneven distribution, though, with services making up two thirds of its GSDP. These are the result of the \$60 billion digital economy, which is primarily concentrated in Bengaluru, the nation's capital. Karnataka, with its wealthy and populist culture, has a serious debt problem that is well hidden. In 2017–18, Karnataka forgave agriculture loans of Rs 18000 crore; in the following fiscal year, this sum grew to Rs 44000. No other state has been as generous to farmers as this one. 3.7% of its gross domestic product (GSDP), or Rs 18 lakh crore, was its fiscal deficit (FD) in FY 21 of Rs 67,098 crore. The high FD ratio was a natural consequence of COVID-19, and the Karnataka Fiscal Responsibility Act raised the cap from 3 to 5 percent as a result. With its outstanding debt of Rs 4.3 lakh crore, it accounted for around 24% of the GSDP. At over twice the rate of the GSDP, debt has been increasing at a rate that is practically unsustainable. The Fifteenth Finance Commission's aim of 9.15 percent for fiscal consolidation was greatly surpassed by its interest payment of 14.95 percent of revenue receipts. The anticipated cost of the promises made in the manifesto and the exchequer giveaways surpasses the estimated fiscal deficit for FY23, which is estimated to be Rs 60581 crore, or 2.6% of GSDP, at Rs 62000 crore.

IV. CONCLUSION

The goal of the giveaways is to win the election. While some people may gain from them, growth will be hampered, and governments will have to take out loans to pay for the election guarantees. The only way to repay the loan will be through taxing the populace, which will raise prices. Price increases will have an impact on all facets of society.

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