



Are freebies affecting the economic growth of India?

FREE IS NOT FAIR

➤ SC says distribution of freebies influences all people. 'It shakes the root of free and fair elections to a large degree'

➤ Petition relates to sop war in TN. Against DMK's promise of free colour TVs in 2006, AIADMK in 2011 announced free mixers, laptops & gold mangalsutras

➤ Political parties argue they have a right to project their

policies & economic and political priorities. Say voters decide on basis of promises in manifesto

➤ Court says assemblies, Parliament should decide on legitimacy of freebies



Context:

In an address delivered at the Delhi School of Economics, 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".

He also noted that **freebies could be harmful** for the long-term economic growth of the country and emphasised the need to **distinguish between productive and unproductive forms** of welfare spending.

Need to look at the definition of freebies itself:

1. The **term “freebies”** gives you an impression of something that is a **dole or a gift given to the population**.
2. 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.
3. 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.
4. Certain kinds of expenditure that are done under populist pressures or with elections in mind may be questionable.
5. 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.

Is there a trend of deterioration in the financial situation of States? Are freebies the reason for it?

When the argument is framed as **freebies versus fiscal stability**, a binary answer is often not possible.

Some of them are extremely justifiable, some of them are not. As far as fiscal stability and financial deterioration is concerned, if we see the welfare spending of the States, and if it is sustainable and affordable, then that is fine as it is the prerogative of the political executive.

Freebies versus Fiscal stability:

We must understand **what exactly we mean by fiscal stability**.

1. Broadly speaking, in common parlance, fiscal stability is a situation in which the government is able to deploy its fiscal policy **towards long-term economic objectives**, which are high employment and growth rates.
2. That leads us **to measures of fiscal stability**. If you see the study of the State finances conducted by the Reserve Bank of India, you find that

from 2005 onwards, in aggregate, States have adhered to the limit in terms of their gross fiscal deficit, which is the gap between the total revenue of the State and the total expenditure.

3. The mandate is under the **ceiling of the fiscal responsibility legislation**, which allows them to keep the gross fiscal deficit within an **aggregate limit of 3% of GDP**.
4. The only years – apart from the pandemic years – when these limits were breached were 2009-10, 2015-16 and 2016-17.
5. 2009-10 was a crisis year and 2015-16 and 2016-17 were years of power sector reforms in which power sector debt was taken over by the state governments.

What is the trajectory of the outstanding debt?

Outstanding debt reduction has actually progressed quite well in the case of the States.

From a **high of 31% of GDP**, it came down by almost 10 percentage points to about 22% of GDP by 2014-15. After that, it has inched up about five percentage points by FY 2020.

If we compare this with the Central government's track record, the Central government has never been able to adhere to fiscal deficit limits.

Secondly, **when it comes to debt reduction**, the Central government's debt-to-GDP limit is supposed to be 40%, but it has now **crossed 90% of GDP**.

So, the problem of fiscal stability is more pressing at the level of the Centre.

How much of this poverty reduction is due to growth versus the welfare measures taken by the Centre?

1. We don't have official poverty estimates after 2011-12. The only estimates that we have are from a number of independent studies by private researchers.
2. There is at least one study that concludes that the rate of poverty reduction has slowed down under the Modi government.
3. There is also a consensus that the welfare measures such as the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) and the public distribution system, have contributed to poverty reduction.

4. The strengthening of these programmes has definitely contributed to poverty reduction. This does not mean that growth does not have a role to play in reducing poverty.
5. Remember, we are in a slowdown simply because **demand in the economy overall has collapsed**. And welfare spending has been able to at least prevent consumption demand from falling any further.

What proportion of spending by States is productive rather than aimed simply at gaining votes in elections?

1. In a democracy where political parties try and get votes from every section of the population, there is obviously a tendency for State governments to try and provide some kind of relief to voters.
2. For example, the MGNREGA type of spending and subsidy in the form of food ration schemes. These go a long way in increasing the productive capacity of the population. So, they're not just doles.
3. They **build a healthier and a stronger workforce**, which is a necessary part of any growth strategy.
4. That is similar to a state spending on education or health. One can call these as an investment for the long-term, for improving the productive capacity of the population.
5. But yes, there are obviously cases where State governments have gone astray and have gone into providing all sorts of freebies or gifts.
6. But when it comes to simply giving away loan waivers, experts are not in favor of these because they have **undesired consequences such as destroying the whole credit culture** and it blurs the very basic question as to why is it that a large majority of the farming community is getting into a debt trap repeatedly.

Issue of unproductive and productive spending:

1. There are always ways to **restructure bank loans** to medium and small enterprises in the event of a **downturn in the business cycle** or any kind of extraordinary shock.
2. We can talk about **loan waivers in the light of weather and other risks** and also the fact that crop insurance has by and large always failed to offset shocks in agriculture.

3. Also, we are in a position where **direct benefits transfer** can be used to deliver loan waivers directly to distressed farmers and the cost of the waiver is immediately taken on the government's budget and financial intermediaries are not involved.
4. The **tendency towards unproductive spending** is not more pronounced at the level of the States as compared to the Centre.
5. If we look at social sector expenditure, there is a **rising trend at the level of the States**, but then the rising trend at the level of the Centre is extraordinarily high.
6. And if you look at the core sector schemes, then the **revenue spending component is as high as 65-68%**. So almost two-third of the expenditure is revenue expenditure.
7. The **issue of unproductive and productive spending** should be looked at in this light and in the light of **mounting interest payments**.

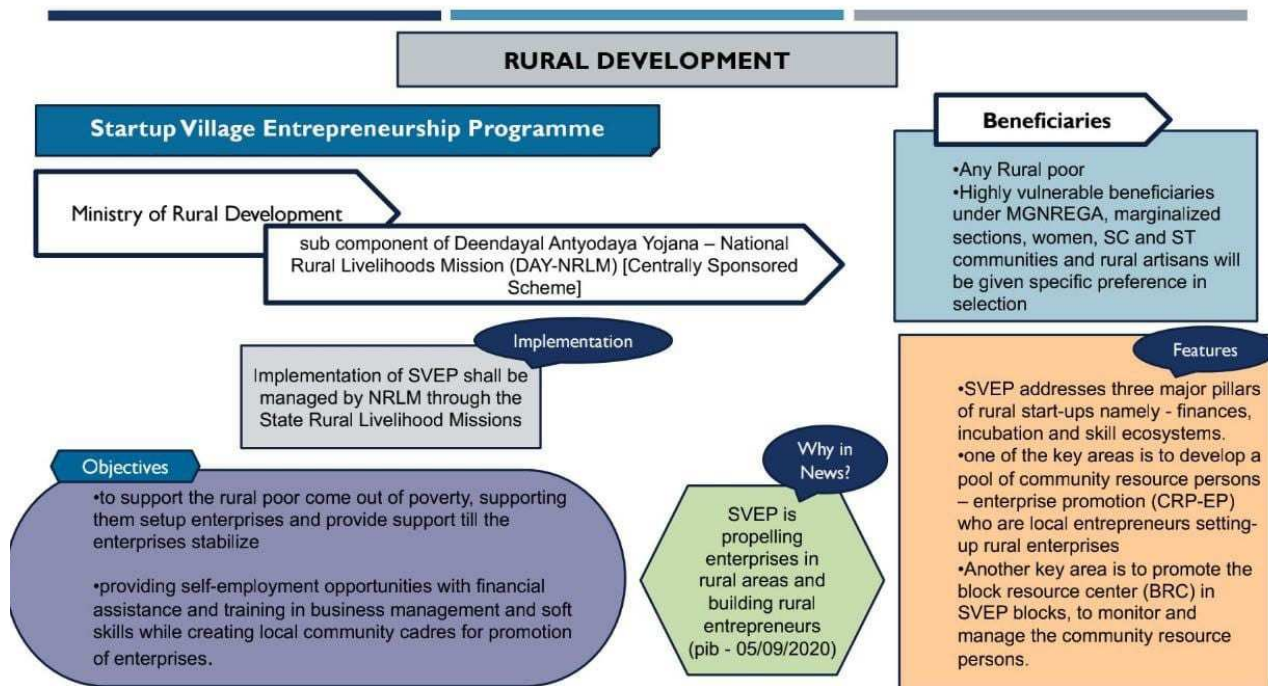
Conclusion:

Fiscal stability is not just about expenditure but also about revenues. And mind you, the Centre also engages in giving out freebies not just to the poor people but also to a large number of corporations.

There is a need to understand the impacts of freebies from the economic sense and connect it with the taxpayers money.

It is also essential to **distinguish between subsidy and freebies** as subsidies are the justified and specifically targeted benefits that arise out of demands.

'Mission Antyodaya' should not fall by the wayside



Background:

In India, **8.88 crore households** are found to be deprived and poor households as per Socio Economic Caste Census (SECC) of 2011 from the **perspective of multi-dimensional deprivations** such as shelterlessness, landlessness, households headed by single women, SC/ST household or disabled member in the family.

These households require targeted interventions under government's various schemes and programmes in areas such as wage creation, skill generation, social security, education, health, nutrition and livelihood creation.

Therefore, 'Mission Antyodaya':

1. In this context, 'Mission Antyodaya' seeks to converge government interventions with Gram Panchayats as the basic unit for planning by following a saturation approach by pooling resources - human and financial - **to ensure sustainable livelihoods.**
2. It is a State - led initiative for rural transformation to make a real difference based on measurable outcomes to the lives of 1,00,00,000 households in 5,000 rural clusters or 50,000 Gram Panchayats in 1,000 days.
3. The **'Mission Antyodaya' project** of the Government of India launched in 2017-18 (and cast in a convergence framework avowedly to eradicate

poverty in its multiple dimensions among rural households) bears great promise **to revive the objectives** of these **great democratic reforms**.

4. The Ministry of Panchayati Raj and the Ministry of Rural Development act as the nodal agents to take the mission forward.

Constitutional provisions:

The **Indian Constitution** mandates local governments to prepare and implement plans for **'economic development and social justice'** (Articles 243G and 243W).

Several complementary institutions and measures such as the gram sabha to facilitate people's participation, the **District Planning committee (DPC)** to prepare bottom up and spatial development plans, the State Finance Commission (SFC) to ensure vertical and horizontal equity, one-third reservation for women (in most States, now 50%), population-based representation to Scheduled Caste/Scheduled Tribe communities, and so on were introduced to promote this goal.

Even so, **India's decentralisation reforms** (with no parallel in federal history) have failed to take the decentralisation process forward in **delivering social justice and progress in rural India**.

Moreover, the revealing statistics brought into the public domain by the **Socio-Economic and Caste Census (SECC) 2011** were 'demanding' remedial intervention.

Paradoxically, In a country that spends more than ₹ 3 trillion every year for the rural poor from the Central and State Budgets and bank-credit linked self-help programmes. Indeed, the 'Mission Antyodaya' project was a needed intervention.

Key goal is to identify the gaps in basic needs at the local level:

1. The **main objective of 'Mission Antyodaya'** is to ensure optimum use of resources through the **convergence** of various schemes that address multiple deprivations of poverty, making **gram panchayat the hub of a development plan**.
2. This planning process (whose intellectual heritage is traced to the people's plan of Kerala) is supported by an annual survey that helps to assess the various development gaps at the gram panchayat level, by collecting data regarding the **29 subjects** assigned to panchayats **by the Eleventh Schedule** of the Constitution.
3. These subjects are broken down into 112 parameters for data collection using detailed questionnaires.

4. Also, data regarding health and nutrition, social security, good governance, water management and so on are also collected.
5. The idea of the Ministry of Panchayati Raj to **identify the gaps in basic needs at the local level**, and integrating resources of various schemes, self-help groups, voluntary organisation and so on to finance them **needs coordination and capacity-building of a high order**.
6. If pursued in a genuine manner, this can foster **economic development and inter-jurisdictional equity**.
7. Although two major reports, one on **infrastructure and service gaps** and the other on a composite index, have been in the public domain, they do not seem to have attracted public discussion.

Gaps in gram panchayats:

The 'Mission Antyodaya' survey in 2019-20 for the first time collected data that shed light on the **infrastructural gaps from 2.67 lakh gram panchayats**, comprising **6.48 lakh villages** with 1.03 billion population.

The data set updated annually enables development planning sectorally and spatially, from the village level to the State and the country as a whole.

For an insight into the gap report, we may use the State-wise break-up of the score-values.

The total number of gram panchayats for all the 18 States that have reported adds up only to 260, constituting only 0.10% of the total 2,67,466 gram panchayats in the country.

If we consider a score range of 70-80 as a respectable attainment level, Kerala tops but accounts for only 34.69% of gram panchayats of the State, the corresponding all-India average is as low as 1.09%.

Even for Gujarat which comes next to Kerala, gram panchayats in this bracket are only 11.28%.

Social justice still distant:

1. The composite index data, a sort of surrogate for human development, are also not encouraging.
2. Although only 15 gram panchayats in the country fall in the bottom range below 10 scores, more than a fifth of gram panchayats in India are below

the 40 range. All the gram panchayats in Kerala are above this and stand out in contrast to the rest of the States.

3. While in the country as a whole only 7.37% have a composite index in the 70-100 bracket, Gujarat (which tops the list) has 20.5% in the range, followed by Kerala (19.77%) and Karnataka (17.68%).
4. The gap report and the composite index show in unmistakable terms that building '**economic development and social justice**' remains a distant goal even after 30 years of the decentralization reforms and nearly 75 years into Independence.
5. Government announced the Mission Project in his Budget speech of 2017-18 with the specific target "to make 50,000 gram panchayats poverty free by 2019, the 150th birth anniversary of Gandhiji".
6. Nothing happened but the goal posts have been moved to 2022, to coincide with the 75th anniversary of Independence, on August 15. Removing goal posts is a poor game.

Need of the hour: Rectify these lapses

The scope to reduce the growing rural-urban disparities is tremendous.

Given the 'saturation approach' (100% targets on select items) of the Ministry of Panchayati Raj, the possibilities of realising universal primary health care, literacy, drinking water supply and the like are also immense.

But there is no serious effort to **converge resources** (the Mahatma Gandhi National Rural Employment Guarantee Act, the National Rural Livelihood Mission, National Social Assistance Programme, Pradhan Mantri Awas Yojana, etc.) and **save administrative expenses**.

Another lapse is the **failure to deploy the data to India's fiscal federalism**, particularly to improve the transfer system and horizontal equity in the delivery of public goods in India at the sub-State level. Evidently the Fifteenth Finance Commission has missed it.

Conclusion:

The constitutional goal of planning and implementing economic development and **social justice** can be achieved **only through strong policy interventions**.

The government should **reduce the growing rural-urban disparities** across primary health care, literacy, drinking water supply and other issues.

The data can be deployed to India's fiscal federalism. It can improve the transfer system and horizontal equity in the delivery of public goods in India at the sub-State level.

The strong policy interventions can help in the **attainment of the constitutional goal of planning** and implementing economic development and social justice in India.

RACE IAS