



Need Committee to look at freebie issue: SC

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What's in News?

Supreme Court sought suggestions from petitioners and respondents, in a plea seeking directions against freebies, on the composition of a committee which can go into the issue "dispassionately" and make recommendations.

Background:

Earlier, Supreme Court asked the Centre to seek the Finance Commission's views on whether revenue allocation to states can account for "irrational freebies" announced by the political parties during election campaigns to entice the voters.

The Bench of the Supreme Court was hearing a case from a petitioner who sought that the Election Commission of India (ECI) should prevent state and national political parties from promising such "freebies" especially given the fiscal implications of such promises.

The EC said that it cannot regulate state policies and decisions.

Freebies:

Freebies are the best gainful methods adopted by political parties to lure voters.

The origin of freebie culture in the country can be traced to Tamil Nadu's politics

Freebies are the things that are promised to be given to the public free by the political parties in their election manifestos

Freebies not only include the free distribution of what may be considered 'club goods' such as TV and gold chains but also welfare schemes such as free or subsidised rations under PDS, cooked meals under the mid-day meal scheme, supplementary nutrition through anganwadis and work provided through MGNREGA.

Problems of Freebies:

(i) Ambiguity in what "freebies" Mean:

There is a need to distinguish between the concept of merit goods and public goods on which expenditure outlays have overall benefits.

(Public goods are provided to the entire society. Merit goods are provided to targeted individuals)

Examples of this are the strengthening and deepening of the public distribution system, employment guarantee schemes, support to education and enhanced outlays for health, particularly during the pandemic. All over the world, these are considered to be desirable expenditures.

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

(ii) Macroeconomic Stability:

Freebies undercut the basic framework of macroeconomic stability.

The politics of freebies distorts expenditure priorities.

In India, the states are already in debt stress. Ex: the debt-to-GDP ratio of Punjab is already at 53.3 per cent for 2021-22, which would worsen on account of new freebies.

(iii) Social Inequality:

The issue of intergenerational equity leads to greater social inequalities because of expenditure priorities being distorted away from growth-enhancing items.

(iv) Movement away from Environment:

Freebies is in the context of providing, for example, free power, or a certain quantum of free power, water and other kinds of consumption goods.

This distracts outlays from environmental and sustainable growth, renewable energy and more efficient public transport systems.

(v) Distortion of agricultural priorities:

This affects agricultural practices which do not depend on extensive use of water and fertilisers.

The depleting supply of groundwater is an important issue to consider when speaking of freebies pertaining to free consumption goods and resources.

(vi) Effect on Manufacturing Sector:

Freebies lower the quality and competitiveness of the manufacturing sector by detracting from efficient and competitive infrastructure enabling high-factor efficiencies in the manufacturing sector.

(vii) Question of Subnational bankruptcy:

This raises the question of whether the time has come to consider recourse mechanisms like subnational bankruptcy.

Freebies bring into question market differentiation between profligate and non-profligate states and whether we can have a recourse mechanism for subnational bankruptcy.

RBI's View:

RBI in its annual report stated that freebies potentially **undermine credit culture, distort prices through cross-subsidisation eroding incentives for private investment, and disincentivise work at the current wage rate leading to a drop in labour force participation,**

Freebies have exceeded 2 per cent of GSDP for some of the highly indebted states such as Andhra Pradesh and Punjab.

Arguments in favour of Freebies:

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(i) It is considered **as Social investment, which facilitates growth**. For example schemes such as MGNREGA, PDS helps in reducing the instances of rural poverty and helps in food security.

(ii) States like Tamil Nadu and Bihar are known for giving women sewing machines, saris and cycles, but they buy these from budget revenues, contributing to the sales of these industries. It can be considered a **boost for the supplier industry** and not a wasteful expenditure, given the corresponding production

(iii) Freebies provide farm income support. Punjab has been criticized for giving free water and power that helps rich farmers. But it can counter-intuitively be argued that wheat and rice prices would have been higher if those costs were borne. Therefore, this is an incentive to produce at a low cost. It is analogous to support-price driven procurement by the Centre, which is also **aimed at farm income support**.