



# IJMRRS

**International Journal for Multidisciplinary  
Research, Review and Studies**

**ISSN: 3049-124X (Online)**

**Volume 1 - Issue 3**

**2024**

© 2024 International Journal of Multidisciplinary Research Review and Studies

# Electoral Freebies in India: Welfare or Fiscal Burden?

- Priyanshu Sharma

## Abstract

This paper attempts to analyze the rise of political freebies in India and whether it is a burden to the state's economy or a way of reducing inequalities. The proponents of freebies argue that such campaigning strategies provide economic equality among the population and serve as a relief to marginalized groups of people while the critics argue that freebies may pose an economic risk to the state in the long run through fiscal deficits and public debts.

It also examines the cases of Indian states such as Delhi, Punjab, and Tamil Nadu where fiscal deficits have risen due to freebies. It also examines the Indian model in the context of global welfare models: The Nordic Model, and Sri Lanka's subsidies that led to an economic collapse. The paper also discusses the behavioral factors that influence the voting decision of a voter.

The paper suggests that welfare and fiscal responsibility can be balanced through policy reforms such as productivity-linked subsidies and transparent budgeting. This research is aimed at emphasizing the necessity of sustainable governance and the distinction between welfare policies and electoral freebies.

## Introduction

Electoral freebies are incentives such as free electricity, cash transfers, and farm loan waivers that are offered by political parties to influence voter's decisions. According to a survey conducted in 2019, 42 percent of Indian voters consider freebies as a vital reason for voting for a particular candidate rather than the candidate's plan for their welfare<sup>1</sup>. Although, freebies are presented as welfare measures their efficacy and fairness are called into question.

The idea of freebies can be linked as far back as the Roman Empire where it was known as 'Bread and Circuses'. The ruler gave out free food and entertainment to the people as a way of securing dominance and covering up for poor governance. This shows how tactical utilization of

---

<sup>1</sup> Maharashtra Economic Development Council (2021) *Rising growth projections*

material benefits has been used over the years to achieve political aims. In India, Tamil Nadu initiated freebie politics in the year 2006 during the state assembly polls, the DMK and AIADMK promised color televisions and mixer grinders to voters. The Aam Aadmi Party (AAP) made freebies famous in Delhi during the state elections in 2015 and 2020 through free electricity, water, and transport. In 2022, Prime Minister Narendra Modi coined the term 'Revadi Culture' for the practice of electoral incentives and shared his concern about the economic impact.

In comparison, **the Nordic Model** (Sweden, Norway, and Denmark) follows a sustainable welfare approach, where freebies are provided predominantly on education and healthcare, and are funded through high progressive taxation rather than unsustainable borrowing<sup>2</sup>. This ensures long-term economic stability while maintaining social security.

This paper examines the economic impact of political freebies, analyzing case studies from Tamil Nadu, Punjab, and Sri Lanka. It explores whether freebies are a welfare necessity or an unsustainable political tool, and proposes policy solutions for responsible governance.

### **The Economic Rationale Behind Freebies**

The use of electoral freebies as a political tool has been widely debated, with arguments both in favor and against their economic implications. While proponents highlight their role in poverty alleviation and rational resource consumption, critics warn of fiscal mismanagement and long-term dependency.

### **The Case for Freebies**

#### **1. Poverty Alleviation and Redistribution of Income**

Freebies can be seen as a short-term fix for financial issues faced by people in poor conditions, helping to bridge the gap between rich and poor. In a country like India, where a large segment of the population lives in poverty, necessities can be subsidized to improve the quality of life and move up the ladder in the socio-economic hierarchy.

#### **2. Rational Expenditure and Conservation of Resources**

---

<sup>2</sup> Krokstad A, Johnsen R, Westin S. *Disability and employment: sustainability of 'the Nordic model*

If designed properly, freebie programs can lead people to use resources in a controlled manner. Research indicates that when resources like electricity are offered for free up to a certain quantity, households are likely to manage their consumption in a way that ensures optimal utilization of resources without overconsumption<sup>3</sup>.

### **3. Increasing Turnout and Involvement of Voters**

A report on the psychological impact of electoral freebies in India suggests that freebies can be a way of encouraging people to vote especially for the needy and oppressed who may not have the chance to do so otherwise<sup>4</sup>. When the voters can see the political leadership delivering tangible results, more people may be encouraged to vote, and as such strengthen democracy.

## **The Case Against Freebies**

### **1. Fiscal Deficits and Unproductive Expenditure**

While freebies give instant satisfaction, they increase government spending without corresponding revenue accumulation. The RBI has pointed out that increased spending on freebies can adversely affect the finances of states, which will have to increase their borrowing and, therefore, indebtedness<sup>5</sup>.

### **2. Encouraging Dependency and Reducing Workforce Participation**

It has been proven that when citizens learn to expect unconditional gifts from the government, it can erode their work ethic and innovation<sup>6</sup>. Economies of countries with high welfare spending but low economic output like Sri Lanka have faced financial problems because of the increase in government spending without corresponding growth in revenues.

### **3. Crowding Out Essential Public Investment.**

The funds used in the freebies could have rather been used in more useful sectors like infrastructure, education, and health. According to the Economic Survey of India (2022), freebie-driven spending starves capital formation, thus slowing down economic growth in

---

<sup>3</sup> Jessoe K, Rapson D. *Knowledge is (Less) Power: Experimental Evidence from Residential Energy Use*

<sup>4</sup> Rafiq J. *The Political, Economical and Psychological Impact of Electoral Freebies in Indian Politics: A Critical Study*

<sup>5</sup> Reserve Bank of India. *State Finances: A Study of Budgets of 2024-25*

<sup>6</sup> Adam Smith Institute. *Basic Income Around the World: The Unexpected Benefits of Unconditional Cash Transfers*

the long run<sup>7</sup>. This paper concludes that there is a need to distinguish between genuine welfare programs and populist policies that may adversely affect public finances.

### **State Budget Deficits & Public Debt**

Excessive spending on freebies has led to a sharp rise in public debt in many Indian states. Punjab has taken a debt of **Rs.2,63,000 crore**, due to subsidies on free electricity to farmers, farm loan waivers, and social welfare schemes<sup>8</sup>. The same is true of Tamil Nadu, which became heavily indebted due to electoral incentives. According to the RBI, such unproductive incentives compel states to borrow heavily and thus incur unsustainable debts. Furthermore, off-budget borrowing, where state governments borrow money through public sector enterprises, also aggravates the already existing hidden debt problem<sup>9</sup>, which makes fiscal management difficult. In this manner, future governments are left with huge financial responsibilities which affect investment in infrastructure and development.

### **Comparison with Global Models**

To find out how freebies can be managed better, it is helpful to look at how India's freebie model compares to global welfare systems:

#### **1. The Nordic Model:**

Sweden, Norway, and Denmark provide high-quality public services including health care, education, and unemployment benefits. However, unlike India, these services are paid for by progressive taxation and are therefore sustainable financially. These nations do not fund their welfare through excessive borrowing but instead collect high taxes from businesses and individuals and balance the budget.

#### **2. Sri Lanka's Crisis:**

Sri Lanka's economic collapse in 2022 is a case in point. The government had adopted massive subsidy programs, tax cuts, and freebie politics without adequate provision for revenue<sup>10</sup>. It led to soaring debt, erosion of foreign exchanges, and, in the end, economic

---

<sup>7</sup> Government of India. *Economic Survey 2022-23*. Ministry of Finance, Department of Economic Affairs

<sup>8</sup> Verma S. *Punjab in economic morass, debt trap of Rs 2.63 lakh crore: AAP white paper*. Times of India

<sup>9</sup> Reserve Bank of India. *State Finances: A Study of Budgets of 2024-25*

<sup>10</sup> Bhowmick S. *Role of tax cuts in Sri Lankan crisis*

paralysis. Sri Lanka's failure is a clear demonstration of the risks of freebie politics, with no fiscal discipline to follow.

## **The Psychological and Behavioral Aspects of Freebies**

Electoral freebies are not only economic factors that determine voters' behavior but also have a significant impact on their cognition. The following section will discuss how psychological factors determine voter choice and the entire electoral process based on the principles of behavioral economics.

### **Voter Behavior & Freebies**

#### **1. Reciprocity Effect**

In the realm of behavioral economics, the reciprocity principle asserts that people feel reciprocally bound to return favors. When political parties give out free electricity, cash, or consumer goods, it can be interpreted that voters will 'have to' vote for them in elections. This makes freebies become more of a means to an exchange than an actual welfare policy.

#### **2. Loss Aversion**

The theory of loss aversion in behavioral economics indicates that people are more sensitive to losses than to potential gains. When voters get free benefits, they start thinking that they own them instead of considering them a favor. Hence, if there are attempts to phase out or limit such benefits, the public becomes angry, comes out to protest, and may even vote against the government. This is because most governments are usually keen on increasing the number of freebie programs even though they are financially strained.

#### **3. Moral Hazard**

The moral hazard theory states that if people expect to receive help in the future, they may not work hard or be self-reliant. Unconditional cash transfers and free ration schemes can discourage people from working, being entrepreneurial, and learning skills. This has implications for economic productivity and social mobility in the long run.

## **Policy Recommendations: Balancing Welfare & Fiscal Sustainability**

To tackle the economic issues linked with electoral freebies, it is crucial to design policies that are aimed at both, the well-being of the society and the sustainability of the public finances. Welfare programs are undoubtedly important in the fight against poverty and in equalizing social opportunities but they have to be affordable, focused, and accretive to productivity. The following policy recommendations are meant to help distinguish between the desirable spending on welfare and the undesirable populist spending while at the same time promoting fiscal discipline.

### **Revising the Concept of Freebies and Welfare**

An important first measure of freebie reform is to distinguish between public welfare and populist handouts. Those aspects of human capital formation for example in the form of education health and food security should be sustained while other non-basic needs such as consumer goods or cash transfers should not. The government should ensure that public spending is directed towards the production of sustainable socio-economic development as opposed to short-term political favors.

### **Subsidies should be made to be linked to productivity**

Instead of providing general subsidies, governments should adopt Conditional Cash Transfers (CCTs), which are transfers that are tied to certain behavioral conditions, such as:

- Education subsidies: Financial support is provided to families, the condition being that children attend school regularly.
- Employment-related benefits: Granting financial assistance to jobless youths on the condition that they enroll in skills training or vocational courses.
- Agricultural incentives: Instead of giving free electricity to all farmers, the subsidies should be given according to the productivity of water and new-age irrigation methods. Such particular subsidies make the proper use of resources and prevent the wastage of money as well as other resources.

### **Fiscal Management and Budget Transparency**

To prevent unsustainable freebie-driven policies, there is a need to enhance the oversight and transparency of the budget. The Election Commission of India (ECI) should:

- Mandate that parties provide a fiscal roadmap for their promised welfare schemes.
- Introduce public disclosure requirements, where states must report the true fiscal impact of freebie expenditures.
- Restrict unfunded or impractical promises that could destabilize public finances.

Additionally, the Reserve Bank of India (RBI) and Comptroller and Auditor General (CAG) should conduct independent audits to assess the long-term viability of state welfare programs.

### **Conclusion: The way forward**

Electoral freebies are a major policy issue that poses a challenge between providing immediate socio-economic relief and sustainable economic growth. While freebies can help in the relief of economic pressure on the poor in the short run, their unchecked proliferation is financially dangerous and may lead to higher fiscal deficits, rising public debt, and diversion of resources from strategic areas like healthcare, education, and infrastructure.

One of the main implications of this analysis is the distinction between genuine welfare and populist giveaways. Those human capital-forming welfare projects that include education, health care, and vocational training should be embraced. However, financial handouts and politically motivated subsidies that have no strings attached and can lead to long-term economic distortions need to be watched.

For the purpose of fiscal sustainability, there is a need to shift to productive welfare policies. This includes using CCTs to tie subsidies to productivity and thus move from dependence to self-reliance, as well as improving budgetary transparency and electoral accountability. Additionally, there is the need to ensure that there is oversight by the Election Commission, RBI, and CAG to avoid the use of public resources during elections.

Policymakers must therefore walk a thin line between supporting the economy and combating social injustice in the future. Thus, it is possible to believe that by enforcing the policies of



welfare programs that are both fiscally sound and oriented towards development, governments can ensure that public funds are spent for the benefit of sustainable economic growth, financial discipline, and, therefore, for the country's progress.

## **Bibliography**

1. [https://www.medcindia.com/article-detail.php?page=1&ele\\_id=NOR\\_6387325dd21b73.0101](https://www.medcindia.com/article-detail.php?page=1&ele_id=NOR_6387325dd21b73.0101)
2. [https://www.researchgate.net/publication/45365782\\_Disability\\_and\\_employment\\_Sustainability\\_of\\_'the\\_Nordic\\_model'](https://www.researchgate.net/publication/45365782_Disability_and_employment_Sustainability_of_'the_Nordic_model')
3. <https://www.aeaweb.org/articles?id=10.1257/aer.104.4.1417>
4. <https://www.iosrjournals.org/iosr-jhss/papers/Vol.27-Issue12/Ser-3/B2712030410.pdf>
5. <https://www.rbi.org.in/Scripts/AnnualPublications.aspx?head=State+Finances+%3A+A+Study+of+Budgets>
6. <https://www.adamsmith.org/research/basic-income-experiments#:~:text=There%20is%20strong%20evidence%20that,effective%20forms%20of%20development%20aid.>
7. <https://www.indiabudget.gov.in/budget2023-24/economicsurvey/doc/echapter.pdf>
8. <https://timesofindia.indiatimes.com/city/chandigarh/punjab-in-economic-morass-debt-trap-of-rs-2-63-lakh-crore-aap-white-paper/articleshow/92464920.cms>
9. <https://www.lexsite.com/eDocs/1735.pdf>
10. <https://asiatimes.com/2022/10/role-of-tax-cuts-in-sri-lankan-crisis/>