

Decode Freebies Maze to free Growth Genie

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By Naresh Minocha, Consulting Editor

THERE is no reason why a national consensus cannot be reached on core issues that endanger the survival of the nation.

There is no justification for the ruling party's inability to overcome political inertia on core issues after twice getting overwhelming people's mandate.

Three freshly raked-up cases in point are the uniform civil code (UCC), population control and political compulsions-fuelled freebies. The cobweb of freebies persists due to complex interplay of several factors.

These include: 1) lack of holistic understanding and approach by the powers that be, 2) alarming rise in populism across the political spectrum, 3) Centre-States competition to woo vote banks, especially farmers and women through freebies, 4) the Centre's reluctance to grapple with core challenges such as linking and limiting dole-out of freebies with size of family, 5) fiscal opacity at all levels of governance leading to ballooning of public/govt debt and 6) explosive mix of population growth, poverty, illegal immigration and liberal issue of Aadhar card to any person who resides in India for 182 days, 7) the citizens' addiction to freebies that result in outcry for more. Call it an aspirational revolution if you wish.

The Supreme Court has been hearing for the 2nd time in a decade several petitions against freebies over the last several months. In its order issued on 26th August 2022, Supreme Court observed:

"Freebies may create a situation wherein the State Government cannot provide basic amenities due to lack of funds and the State is pushed towards imminent bankruptcy. In the same breath, we should remember that such freebies are extended utilizing tax payers money only for increasing the popularity of the party and electoral prospects".

The observation about bankruptcy risk is corroborated by Punjab's White Paper on State Finances published in June 2022. As put by WP, ***"Today, Punjab is in an economic morass and debt trap."***

It says:

"The previous Governments, instead of applying necessary correctives, continued to slip into fiscal profligacy, as evident from the unchecked increase in unproductive revenue expenditure, freebies and unmerited subsidies, virtual collapse in the capital and social sector investments vital for future growth, and non-realization of its potential of tax and non-tax revenues."

Like AAP-ruled Punjab, Tamil Nadu (TN) White Paper on State Finances after DMK came to power. Released in August 2021, the Document says:

"The fiscal situation of the State is in dire circumstances, in part due to extraneous circumstances, but in substantial measure due to structural flaws in governance which have not been rectified in a timely manner".

It notes TN has the ***"dubious distinction of currently being the largest borrower in the open market amongst all States in India."***

White Paper adds:

"In the last 3 to 4 years borrowing has been resorted to even for non-discretionary spending like salaries, pension and interest payments which were for many years before met out of the regular revenue receipts of Government. This practice must be stopped."

An article published in RBI Bulletin June 2022 should serve as a wake-up call for voters who are hooked to freebies. Captioned ' **State Finances: A Risk Analysis**', the article has been penned by seven RBI researchers under guidance of RBI deputy governor.

As put by the article,

"The recent economic crisis in neighbouring Sri Lanka is a reminder of the critical importance of public debt sustainability. The fiscal conditions among states in India are showing warning signs of building stress. The slowdown in own tax revenue, a high share of committed expenditure and rising subsidy burden have stretched state government finances exacerbated by COVID-19. For the five most indebted states, the debt stock is no longer sustainable, as the debt growth has outpaced their GSDP growth in the last five years."

It adds: "

New sources of risks have emerged - relaunch of the old pension scheme by some states; rising expenditure on non-merit freebies; expanding contingent liabilities; and the ballooning overdue of DISCOMs - warranting strategic corrective measures."

After the apex court's observations and queries on freebies, the Election Commission (EC) too has embarked on freebies oversight expedition for the 2nd time. EC last month issued a letter to political parties, seeking their views on improving model code of conduct pertaining to manifesto promises.

A similar exercise done after Supreme Court's 2013 judgment on freebies has had no impact on tsunami of poll promises. There is no law that can check political parties or the Government from doling out freebies prior to announcement of date for polls. There is no law that prevents politicians from wooing voters with periodic gifts before the announcement of elections and after the polls.

The Government top-notch representatives, right from recently retired Vice-President V. Naidu to chief economic advisor (CEA) have been doing loud thinking on the issue periodically.

The Prime Minister Narendra Modi added spice to freebies broth in July 2022. He coined a new term for freebies- free revadis/ rewaris - the candies made from unrefined sugar and linseeds by cottage industries.

Inaugurating Bundelkhand Expressway in Uttar Pradesh on 16th July 2022, Mr Modi said:

"People of the country have to be very careful with this freebies culture (â€˜Rewri' Culture)."

An official release quoted PM as saying

" Nowadays, every effort is being made in our country to introduce the culture of collecting votes by distributing freebies. This culture of freebies is very dangerous for the development of the country." He urged public to
"Defeat and remove freebies culture from the politics of the country."

The political broth has since then been brimming to the top of cauldron. It is time to pipe down cacophony in three steps: First, define the entire domain of overt and covert freebies. To avoid academic hair-splitting, freebies can be taken as synonym of subsidies - both implicit and explicit ones.

Second, categorize them into three - A) essential that help fulfil basic minimum needs B) non-essential such as Chief Minister's wedding gifts to poor parent's daughter, C) condemnable subsidies such as pension to MPs or MLAs even if elected once, given to specified category of journalists in States such as Assam and Haryana and to kins of freedom fighters 75 yrs after the Independence. The biggest cornucopia of freebies is Pay Commission awards to government employees at 10-year cycle. They make a mockery of recommendations of successive Finance Commissions.

Third, make freebies manageable, sustainable, explicit and efficient. The trade-off between freebies-funded public welfare and capital investment on growth should be kept in view.

This calls for an enforceable ceiling on the money that the Government can spend on freebies. The cap should be set as a percentage of tax and revenue. And for this, Modi Government should take Panch Pran (five vows). More of this later in the column.

Freebies can be defined as full or partial subsidization of goods and services. The beneficiaries start right from the President to the poorest of the poor. The exercise to weed out freebies should thus begin with independent scrutiny of entitlements that **netas** and **babus** confer on them under the garb of serving the public.

Are statutory rent-free, furnished, sprawling bungalows to Union cabinet ministers in Lutyens' Delhi an entitlement or a freebie? How many air-conditioners should be there in a minister's bungalow? Is monthly allocation of thousands of rupees to each retired judge of supreme and high courts as cost of hiring orderly, cook and guard a freebie or entitlement?

Why can't entitlement be cut to size – say furnished six-bedroom flat for cabinet ministers? What is the rationale for the Defence Ministry subsidizing flight of Prime Minister for non-official purposes, chiefly political rallies? Should ruling party not pay chartered flight rates for such usage?

What about gifts, in cash and kind, that political parties shower on citizens to lure them to rallies held periodically. A case in point is thousands of saffron sarees distributed to women in for participation in Rajkot rally addressed by Mr. Modi on 29th May 2022. The Indian Express covered this news with headline **"Free sarees stand out at Rajkot event; organisers say Modi, not freebies, is the draw."**

Stories of BJP ministers and party functionaries distributing Sarees as Diwali, Holi or birthday gifts have been reported by the Press over the years.

Recall the death of 21 women and children in stampede at Lucknow caused by handing over of sarees as birthday gift from BJP stalwart late Lalji Tandon during April 2004.

Nothing came out of Opposition parties' written complaint to EC on this case. The then Prime Minister Atal Bihari Vajpayee strongly defended the regular practice of giving sarees as birthday gifts.

Are ostensibly anonymous donations to political parties as electoral bonds freebies or **quid pro quo** for favours to donor business entities?

All such and similar questions should be listed in a national discussion paper on freebies that the Centre should within a span of three months. The paper should give break-up of all categorized freebies and the national and state exchequer's expenditure on them. The table should specify how much of this expenditure is financed through borrowings at the cost of future generations.

The proposed paper should also suggest road-map for pruning freebies. It should specify how annual saving on this count would be utilized for building schools, hospitals, roads and on jobs-creation assets in rural areas.

It is here pertinent to cite an enlightening working paper (WP) published by National Institute of Public Finance and Policy (NIPFP) in November 2019. WP says:

"rationalising non-merit (central and state) subsidies is one of several deep fiscal reform measures that could together free up massive fiscal space, conservatively estimated at 6% of GDP." It notes this is

"close to the entire fiscal deficit of the central and state governments taken together! "

As WP is based on pre-covid statistics, the present situation would be far aggravated as lockdowns and other covid restrictions led to rise in subsidies and govt borrowings and fall in revenue.

Consider now Five vows that Modi Government should take:1) Enact Bharat debt ceiling & fiscal credibility law. Let this be first, real tribute to Dr. B.R. Ambedkar who envisioned debt limiting law in 1949. ([Replace FRBMA with debt ceiling law as mooted by Dr. Ambedkar](#)).

The debt ceiling provision already exists in the Constitution. Its invocation has thus been recommended by expert panels including Finance Commission. One wonders why no one mentioned this fact during in SC hearing where it was suggested that Finance Commission's views should be sought on freebies.

Well, without using the term freebies, successive Finance Commissions have dealt with this issue under the heading subsidies. A FC has a fixed tenure and it is thus not a permanent institution. SC thus ordered in August 2022 that freebies should first be studied by an expert committee. Last month, SC ruled that there no need for urgent listing of freebies PILs.

The proposed law should specify ceiling on total national debt. The law should specify separate caps for Central, State and Local Government bodies. The country's government or public debt (centre and States combined) is perhaps close to 100% if all off-budget borrowings are unearthed and added to national debt. The globally accepted prudent debt limit is 60% of gross domestic product (GDP). All Governments are in debt recycling mode. This is evident from the fact that the lion's share of borrowings is accounted for repayment of interest on past borrowings. The debt is also regularly used to finance freebies.

2) It is high time to replace toothless wonder called Fiscal Responsibility and Budget Management (FRBM) Act, 2003 with a new law. It must provide for total transparency and accountability of accounts. FRBM Act is a fraud on the democracy as it grants immunity to the Government for breach of FRBM provisions. The Government's actions under it can't be challenged in the courts. It empowers the Government to change rules/targets framed under the Act at its own sweet will. ([Time to Rescue Fiscal Responsibility from Ritualism](#))

FRBM rules have been amended so many times that the fiscal responsibility has become synonymous with zero accountability. The proposed law should stipulate that expenditure on freebies should be capped at, say 25% of tax and non-tax revenue.

Under no circumstances, freebies should be financed with debt as has happened all these years. The latest cases in point being free ration to free covid vaccines for which Government borrowed abroad as well as at home. The law should be relaxed or suspended in the event of a war. In normal times, the penalty for breach of the proposed law should be a reduction in the number of seats from where the ruling party or alliance can contest the next generation election. 1% revenue deficit for financing freebies should lead to 10% reduction in seats for the ruling party in next elections.

3) In the long run, enact a law for pooling of central and State revenue allocation on food, fertilizer, cash dole-outs and all other farm freebies to end competitive popularism between the Centre and the States. At present, both Centre and the States woo farmers with the cash separately under direct benefit transfer (DBT) format. Both provide many subsidies on farm inputs and services.

The pooled money should be used to provide universal basic income (UBI) of Rs 6000 per month per family with five members. UBI should be inflation-indexed to protect poor. In addition to UBI, the Government should provide free education and healthcare to all eligible persons in Government-owned facilities.

The proposed pooling laws can be enacted on the lines of GST Act. We should have a statutory Janata Welfare Council as the ultimate decision-maker on pan-India freebies. The law should stipulate co-branding of freebies as PM-CM scheme, if elected representatives feel uncomfortable with common names such as rashtriya or national ([PMJAY Symbolizes Modi Ji's Magic of Disruptive Development](#)). A beginning can be made by transforming centrally sponsored scheme as equally funded initiative by Centre and the States. Such schemes should be co-branded as PM-CM schemes. Ideally, we should shun all personalized branding of schemes as part of Mr. Modi's campaign against slave mentality.

4) Enact law to ban cross-subsidisation of services such as rail travel and transport, power supply and other services. Instead of cross-subsidy, pay to public via DBT or specify a component of UBI as transport allowance. Let vote bank politics not ruin railways and power distribution companies.

5) The Centre and the States should constitute independent fiscal councils under FRBM Act. As many as 49 countries had constituted such institutions till 2021. The Centre has trashed recommendation of successive FCs to constitute fiscal council.

According to International Monetary Fund,

"Fiscal councils are often non-partisan, technical bodies entrusted as a public finance watchdog to strengthen credibility of fiscal policies with a variety of mandates."

It adds:

"Fiscal council is defined as a permanent agency with a statutory or executive mandate to assess publicly and independently from partisan influence government's fiscal policies, plans and performance against macroeconomic objectives related to the long-term sustainability of public finances, short-medium-term macroeconomic stability, and other official objectives."

It is time to shed inertia in the long-term interest of the nation and for future generations. They should never be made to pay for freebies splurged by political parties in pursuit of power.

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