

NEXT IAS

**DAILY EDITORIAL
ANALYSIS**

TOPIC

**FREEBIES & CASH TRANSFERS IN
INDIA**

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FREEBIES & CASH TRANSFERS IN INDIA

Context

- Recent **State Assembly elections** witnessed promises of **cash transfers, free electricity, transport, and goods**, seen as **populist measures playing a crucial role in inclusive growth**, poverty alleviation, and demand generation, along with cautioning against fiscal irresponsibility.

What are Freebies & Cash Transfers?

- Freebies** are goods and or services provided **free or at highly subsidized rates** for political or welfare purposes. It includes free electricity, water, laptops, cycles, and free transport.
- Cash Transfers** are direct transfer of money to beneficiaries, usually via **Direct Benefit Transfer (DBT)**. Welfare transfers have been central to India's **post-2010 social policy shift**, improving delivery efficiency via Aadhaar-linked systems.
 - Both **Union and State governments** extensively use cash transfers:
 - PM-KISAN (₹6,000 annually)**: Direct income support to farmers.
 - PM Garib Kalyan Anna Yojana (PMGKAY)**: Food security scheme (about ₹2 lakh crore annually).
 - MGNREGA**: Employment guarantee (₹80,000 crore – ₹1 lakh crore/year).

Key Tools/Mechanisms

- DBT**: Aadhaar-linked transfers to bank accounts, with aim to reduce leakages and corruption.
- Jan Dhan, Aadhaar, Mobile (JAM) Trinity**: Backbone of welfare delivery
- Public Distribution System (PDS)**: Food security via subsidized grains
- MGNREGA**: Wage-based transfer (employment guarantee)
- Centrally Sponsored Schemes**: PM-KISAN, PMGKAY, pensions, scholarships

Key Benefits of Cash Transfers & Freebies

- Poverty Alleviation**: Direct income support improves **minimum consumption levels**. PMGKAY helped prevent extreme poverty during COVID.
- Demand Generation**: Poor households have **high marginal propensity to consume**. It boosts rural demand, FMCG sector, and MSMEs.
 - NSSO consumption surveys show a **shift from food to non-food expenditure**, indicating rising living standards.
 - Schemes like **Beti Bachao Beti Padhao** and **free bus travel initiatives** show measurable improvements in female mobility and education.
- Inclusive Growth**: Bridges inequality, and supports vulnerable groups.
- Women Empowerment**: Cash transfers to women improve financial autonomy, household welfare; and free transport reduces school dropouts, and increases **female labor force participation**.
- Social Security & Safety Net**: Acts as **automatic stabilizer** during crises; MGNREGA supports rural livelihoods.
- Efficient Delivery**: DBT reduces leakages, and middlemen; It is supported by digitization.

Key Concerns & Issues

- Fiscal Burden**: High subsidies strain State budgets; and risk of exceeding **FRBM limits**, typically maintaining deficits within **3 – 3.5% of GSDP**.
 - Any deviation requires approval from the **Centre or RBI**, ensuring macroeconomic discipline.
- Populism vs Productivity**: Political competition leads to **unsustainable promises**; and preference for short-term gains over long-term investment.

- **Capex Trade-off:** Reduced funds for infrastructure, health & education; and may affect long-term growth.
- **Moral Hazard:** Risk of reduced work incentives, and dependency culture.
- **Targeting Issues:** Inclusion/exclusion errors; some benefits go to non-deserving groups.
- **Inefficient Resource Allocation:** Free power leads to overuse of groundwater; and distorts market signals
- **Long-term Sustainability:** Difficult to withdraw once introduced.

Way Forward

- **Targeted Welfare, Not Blanket Freebies:** Focus on **need-based transfers**; use data-driven identification
- **Universal Basic Income (UBI) (Gradual Approach):** It is suggested by **Economic Survey 2016-17**. It aims to replace multiple subsidies with **basic income support**;
 - ♦ It simplifies the welfare system, and reduces leakages.
- **Balance Between Capex & Welfare:** Maintain **growth (capex)** and **equity (transfers)**.
 - ♦ **Fiscal prudence** depends more on **quality of expenditure** rather than its classification as 'freebie' or 'investment'.
- **Strengthen DBT Ecosystem:** It improves financial inclusion, and digital infrastructure.
- **Fiscal Discipline & Transparency:** Clear classification of merit subsidies vs freebies; and independent fiscal councils.
- **Outcome-Based Welfare:** Link transfers to education (conditional cash transfers), and health outcomes.
- **Employment Generation:** Long-term solution like skill development, manufacturing growth, and reduce dependency on transfers.

Conclusion

- The characterization of cash transfers as mere 'freebies' oversimplifies a complex policy tool, as they enhance **consumption demand**, promote **social equity**, and act as **economic stabilizers**, when well-targeted and fiscally managed.
- For India, where structural inequalities and employment gaps persist, cash transfers are not just political instruments but **economic necessities** at least until growth becomes more employment-intensive.

Source: BL

Daily Mains Practice Question

- [Q] Examine the role of cash transfers and subsidies in promoting inclusive growth. Highlight the associated challenges and suggest a balanced policy approach.