

POLITICS

Election Freebies Are Generating Public Debt, but Voters Don't Seem to Care

BY NILANJAN BANIK ON 17/05/2016 • [LEAVE A COMMENT](#)

Voters may be happy to receive freebies, but the long-term economic and political consequences are immense. Instead, political, judicial and administrative reforms are needed to curb corruption.



Credit: Reuters.

An intriguing question in political economy is how politicians get re-elected in spite of the public perception that they are corrupt. The answer, perhaps, lies in the short-sightedness of the voter, who cares more about living in the present even at the cost of an uncertain future. This means that freebies doled out by the incumbent government actually work. And if this is common knowledge, then logic suggests that politicians would indeed dole out freebies. They are maximising their objective function, which is to get re-elected, often changing the nature and packaging of these freebies as the situation demands.

Consider this: in West Bengal, which has a much lower per-capita income than Tamil Nadu, the incumbent Trinamool Congress (TMC) government has been distributing subsidised rice to poor, has constituted the *kanyashree* scheme for girls (in which a one time grant of Rs. 25,000 is given for unmarried girl between 13-18 years of age if the family's income is up to Rs. 120,000 per annum) and donating money for club funds (typically run by otherwise 'unemployed' party workers). In Tamil Nadu, which has a much higher level of urbanisation and industrialisation, the freebies include high-end consumer durables such as television sets, laptops for students, mixer and grinders and LPG stoves, and the running of heavily subsidised food canteens.

These facts are well known and widely publicised. However, what is not so publicised is the consequence of shelling out such generous dole programmes. In Tamil Nadu, if one has to implement all the dole programmes as promised by Dravida Munnetra Kazhagam (DMK) and All India Anna Dravida Munnetra Kazhagam (AIADMK) parties, then it will cost the government exchequer an additional Rs. 10,000 crore every year. Tamil Nadu's public debt has exceeded Rs. 2,00,000 crore in 2015-16. West Bengal has doubled its outstanding state liability in excess of Rs. 3,00,000 crore over the last five years.

One can argue that Maharashtra, an industrially advanced state, has the highest debt at around Rs. 3,50,000 crore. But then most of this debt is because of industrialisation, and due to a spurt in manufacturing and services. On the other hand, for West Bengal and to some extent in Tamil Nadu, a large component of public debt has originated from unproductive freebies.

Quite naturally, the debt to state GDP ratio is much less for Maharashtra in comparison to West Bengal and Tamil Nadu. An alternative way to check for sustainability in government debt is to assess solvency. A solvent government must be able to finance its deficit in the long run. To be solvent, the initial debt stock has to be equal to the present discounted value of future primary surpluses. In other words, the present discounted value of government debt should fall to zero (or a minimum acceptable limit) as time progresses. While an increase in the real rate of interest increases the debt burden of any state, a higher growth rate reduces the debt burden when it is taken as a proportion of the GDP.

Unfortunately, an increase in subsidies on non-merit goods such as freebies is going to make the fiscal deficit of any government unsustainable. There is now a consensus that subsidies on non-merit goods should decline, and those on merit goods should increase. While freebies may keep voters in oblivion and even blissfully happy, the fact of the matter is that between 2011 and 2014, West Bengal's per capita income was less than the all-India

average by 12.2%. This figure is higher than it was during the Left rule between 2004 and 2011, when West Bengal's per capita income lagged behind the all-India average by 10.4%.

But who cares about these facts? As the numbers relating to the increment in declared assets of sitting members of the legislative assembly (MLAs) in Tamil Nadu suggest, politicians continue to make money (see Table 1). Per-capita wise, for MLAs who won in 2011 and are re-contesting in 2016, those representing Pattali Makkal Katchi (PMK) and the Indian National Congress (INC) have the most assets in 2016. But then there are only three such candidates representing these two parties, and these figures can be counted as outliers. Otherwise, in terms of per-capita, MLAs of the ruling AIADMK have less asset value of Rs. 17.43 lakhs, as opposed to their arch-rival DMK MLAs, who have an average asset value of Rs. 88.03 lakhs.

Party	Total MLAs	Average assets in 2016	Average assets in 2011	Annualised increase in Asset
AIADMK	51	88910642	40850506	16.8
DMK	16	140859661	81184391	11.7
DMDK	11	64043411	35197158	12.7
CPI	4	6613069	3881492	11.2
CPI(M)	4	6720509	5193860	5.3
PMK	2	33498524	17854482	13.4
INC	1	71829318	38342706	13.4

Source: Compiled from <http://www.myneta.info/> and Association of Democratic Reforms. Contributed by Mohan Ramnath, a researcher with the Woxsen Business School, Hyderabad.

There is a need to make the bureaucracy and police independent. There is also a need to create a statutory, independent police commission, along the lines of the election commission, to supervise crime investigation and prosecution. Ideally, an independent state police commissions should be created in every state. This will end political interference and curb corruption, ultimately benefiting the entire political process. A popular perception about the reason for the increasing fortunes for politicians is corruption. To curb corruption there is a need for political, judicial and administrative reforms. Currently, political funding is opaque and non-transparent, and at times is linked to

corruption. Political funding is mobilised by looting the exchequer and by selling patronage. To improve governance there is a need to undertake judicial reforms too, to ensure that cases do not go on and on for many years.

The two industries which flourished at the time of the Great Depression in the US are the liquor and film industry. People got drunk and watched movies to forget the pain caused by unemployment. Politicians know about dreams. The time has come for us, the voters, to awaken to reality.

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