

# **Impact of Freebies and populist schemes on Fiscal Structure of States: A Study of Financial Crisis in Himachal Pradesh and Punjab**

**Dr Hema Rohra**

*Professor (Dept. Of Economics)  
Jagran College of Arts, Science and Commerce*

**Mr. Mradul Mishra**

*Student*

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*Rewadi culture (Freebies culture) had made it to the centre stage of our country's politics. Political parties around the country mentions a number of populist schemes in their manifesto like free electricity, farm loans waiver, rolling back Old Pension Scheme etc. Though it seem to be having a munificent outlook yet it jeopardize the Financial situation of Governments in future. Reserve Bank of India and many research institutes cites these welfarist schemes inimical to the Fiscal balance of the States. Higher debt to Gross State Domestic Product (GSDP) Ratio, Lower Growth Rate, High expenditure on Subsidies, low investment in the form of Foreign Direct Investment (FDI), Procedural delays in Industrial Setup results into poor Infrastructural development, leading to the burgeoning fiscal deficit. This situation not only impedes India's aim to become Viksit Bharat by 2047 but also widens the regional growth imbalance. This study analyses the recent Financial crisis in States of Himachal Pradesh and Punjab owing to the reckless spending on populist schemes that resulted into delays in release of salaries, pensions of Government employees. In FY 2023-24, the average debt to GSDP ratio of all the states was 31% while Punjab and Himachal Pradesh were reeling with the debt burden of 50% and 42.5% of their GSDP Ratio respectively. It has raised questions on the governance practices and posed new challenges in Fiscal discipline which puts the future of these states in peril. Thus, there is a strong need to come up with harmonious solutions to improve the financial situation of the states for the prosperity of the economy.*

**Keywords:** *GDP, GSDP, Financial Crisis, Fiscal Discipline*

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## **I. Introduction:**

It has become a well-known fact that freebies distribution has taken centre-stage in the economic policies of the governments. The states have become habituated to launch policies giving various freebies like free electricity, water, free transportation for women, farm loan waivers etc. These subsidies not only jeopardise State's fiscal health but also impose substantial opportunity costs, limiting the Capital Expenditure on infrastructural facilities and spending on other social programmes in other domains.

In a Reserve Bank of India report 2022, Freebies have been defined as "a public welfare measure that is provided free of charge." It adds that freebies are different than public/merit goods such as health, education, expenditure which has wider and long term benefits. According to a recent report by State of State Finances 2023-24 by PRS Legislative Research, subsidised items can be broadly classified into merit and non merit goods. "The consumption of certain goods and services such as education and health by an individual may have wider benefits for the society and the subsidisation of such goods can be considered socially desirable," it says.

However, providing subsidies for non merit goods may not involve wider social benefits. As a result, States are running short of funds for carrying out any developmental activity in form of infrastructural development or manufacturing establishments. Ultimately, it will significantly reduce the investments and hinder the employment opportunities in the region. In a report, RBI had also observed that increasing Expenditure on non merit subsidies can constrain the space for capital expenditure.

The freebie culture originated in the state of Tamil Nadu between 1954 and 1963 when Late Kumaraswami Kamraja, the chief minister of erstwhile Madras state, introduces free education and free meals for school education. Later in 1967, DMK Founder CN Annadurai took the culture forward by promising 4.5 kg of rice for Rs.1 if he were to be elected. From then the whole cycle of competitive freebies started and today it has become the part of every election manifesto. The Question arises, "Who pays for these freebies?" The answer is quite

simple . It's like putting your money in your left pocket by taking it out from your right pocket. .These freebies disrupt the state finances , resulting into excessive spending without any return . For instance, the previous Government of Andhra Pradesh spent Rs. 1.62 lakh crore under various freebie schemes . It led to the fact that the state government was recently found mortgaging government land and offices to run the administration. The recent example of Himachal Pradesh and Punjab grappling with mounting financial liabilities as the state's outstanding debt rose from 37% of GSDP to an estimated 42.5% in 2024-25. Thus , This paper offers a sound framework for analysing the merits and demerits of freebies and its impact on the economic landscape.

### Research objectives

- To study the impact of freebies on Fiscal structure of Himachal Pradesh and Punjab.
- To know about the advantages of freebies as a tool to attain welfare
- To know about the challenges of freebie culture resulting into financial drain of revenue.
- To find the suggestions to improve the financial health of states.

### Research Methodology

- The study is both descriptive and analytical in nature.
- The study is based on the secondary data. The data have been obtained from various sources-like research paper, blogs, websites, newspapers etc.

## II. Literature Review

Vashnavi Mungale (2022) published an article in Maharashtra Economic Development Council stating that Government providing freebies will lead to high taxation and low productivity. As a result, Citizens are bound to be dependent on the government. Moreover, it disrupts state finances and throws government into a debt spiral. Freebies give temporary respite to the masses, but they put a dent in the country's economy. If the money is spent on development projects , investments , development of roads which may generate employment instead of spending on freebies , it will help in the long run for the economy to flourish.

**Ajit kumar(2024)** highlighted two aspects in his study ,i.e. freebies and budget ,stating that the government of india is trying to cut down the resources allocation in the name of social security schemes and instead target for growth advancement in the middle class. The study concluded that the distortionary freebies are very much creating fiscal imbalance in the economy and distorting the allocation of national resources.

**Rohan Bavadekar (2022)** examined the cause of discom failures and its failed efforts to recover the cost pulling down towards losses and distress. The past freebies are still a burden on the present electricity generation board and if they continue to distribute electricity for free ,then discoms will be in a state of emergency to shutdown. The loan waiver announcement at the time of elections also caused problems in the banking sector and will soon convert into loss making business.

Based on the recent Sri Lankan crisis, the **Reserve Bank of India (2022)** served a report on **State finances: A risk analysis** demonstrated the fiscal risk faced by the State governments of India. The fall in own tax revenue, a high share of committed expenditure, and increasing subsidy burdens have extended the state government finances which was already aggravated by COVID-19. New sources of risks have surfaced in the form of rising expenditure on non-merit freebies, expanding contingent liabilities, and the soaring overdue of DISCOMs.

### Impact of Freebies on the Fiscal Structure of States:

#### A.] Himachal Pradesh

Himachal Pradesh known for its scenic landscapes and picturesque gorges , surrounded by the Himalayas is currently grappling with the financial crisis. With the mounting debt burden and insufficient revenue generation, the state government decided that the ministers will not withdraw their salaries for two months. The state's debt has surged from Rs.47,906 crore in 2018 to Rs.76,651 crore in 2023 and is expected to reach Rs. 1 trillion by the next financial year. The per capita debt in Himachal Pradesh stands at Rs. 1.17 lakh per person, making it the highest in the country after Arunachal Pradesh. As a result, for the first time in the history of Himachal Pradesh, 2 lakh employees and 1.5 lakh pensioners of the state did not get salaries and pensions on time. The underlying reasons for the fiscal imbalance is the freebies and subsidies which is taking a heavy toll on the state's fiscal health.

A look at the populist schemes of the Himachal Pradesh Government:

1. 125 units of free electricity to all households falling under the tax paying group.
2. Mata Shabri Mahilla Sashaktikarn Yojana: LPG Gas connection subsidy of Rs. 1300 is provided for the government.

3. Rs. 5000 grant for widow remarriage
4. Restoration of Old Pension Scheme (OPS) has increased the expenditure by Rs. 2000 crore
5. Free travel facilities to women across the state on 3000 state roadways buses.

Moreover, reconstruction of calamity-battered physical infrastructure like roads, bridges etc, due to flash floods and landslides. Insufficient revenue generation due to lack of industries has put the state exchequer reeling under fiscal burden. A large chunk of revenue goes to the salaried classes and pensioners. This financial mess in Himachal has landed the state in a massive debt of nearly 90,000 Crore.

The Government is currently trying to find a judicious roadmap by rationalising around 14 subsidies freebies along with undertaking a salary cut in order to cut down the expenditure and revival of the crippled economy.

#### **B.] Punjab:**

The ongoing financial crisis in Punjab is evident of the fact that Punjab's debt to touch 3.74 lakh crore by the end of 2024-25 fiscal, amounting to more than 46 percent of Gross State Domestic Product (GSDP). As a result, every resident of Punjab will likely to have a debt of around 1.24 lakh on their head. Populist spending in the form of power subsidies, travel freebies, and persistent increasing salaries and pensions has put the state coffers in a precarious situation. As a result, the capital expenditure of the state reduces to 3000 lakh crore less than the last year. The power subsidy for agriculture and domestic households is continuously increasing. Data from the Reserve Bank of India shows that Punjab is among the top five indebted states of the country. The fiscal deficit is the second highest among the 17 general category states. The list of subsidies-freebies are as follows:

1. 300 units of free electricity to all the households
2. Rs. 1000 per month to every adult woman, costing Rs. 28962 Crore in 2022-23.
3. Free bus travel to all the women
4. Increase in salaries, pensions and after retirement benefits.

#### **Freebies as Double Edged Sword!**

##### **Freebies as instrument for social welfare:**

Freebie culture came into prominence as it has been ascertained as a medium of social welfare by providing basic public amenities like Education, Health, transport free of cost. This will drastically reduce the expenditure on these routine costs and people will be left with more disposable income. It will empower them and increase their purchasing power, creating consumption multiplier in the economy propelling the growth rate to go northwards. It can also increase the savings rate which will further crowd in investment in stock, credits, banks, mutual funds etc.

A study published by **Planning Department of Government of National Capital Territory of Delhi** highlighted the positive impact of subsidies on socio-economic lives of the people. The study observed that

1. All surveyed households have been benefitted by reduced or zero electricity bill, while 76.1% have been benefitted by reduced or zero water bill, 64.7% have been benefitted for free/reduced cost treatment in Government hospitals, 58% have been benefitted for free bus ride for women and 43.7% households have been benefitted for free public education.
2. Due to all these subsidies, a household in Delhi is now saving Rs. 2464/- per month.
3. Majority of these households informed that they have already spent the extra money saved due to subsidies, 28.4% have invested the money in FD, Post office, Insurance, Savings in Bank, property etc, 50.7% have spent on food and beverages, 13.1% on education and others purposes.

Based on the above Findings, Freebies has the following advantages

1. **Economic Growth:** Freebies can lead to higher economic growth by increasing the productivity especially in less developed regions of the country.
2. **Digital Empowerment:** Free laptops, smartphones, low cost internet connectivity facilities unobstructed education and quality learning. Moreover, it makes people avail of the digital services like online payments, healthcare facilities etc.
3. **Income Equality:** Freebies can reduce the income disparity by redistributing wealth and resources in a more equitable manner. For example, Loan waivers to farmers, or cash transfers can empower the impoverished, indebted by giving access to assets, credit or income support.
4. **Bottom Up Approach:** Freebies like Education, health, electricity, etc can promote social welfare of the poor and the marginalized at the lower rung of the society. It can improve the literacy, health conditions, and quality of life of the downtrodden.

**5. Bridging the trust deficit between people and Government:** Government freebies can increase public trust, satisfaction and good governance as they demonstrate its responsiveness and accountability to the people.

##### **Drawbacks of Freebies for the Economic Growth and Development:**

As 'All that Glitters is not Gold', Freebies in the guise of welfare, negatively impacts the entire economy as it worsens the fiscal deficit, putting states in an irretrievable debt trap. Often welfare and freebies schemes are used

invariably but in reality, there lies a vast difference between the two. The former targets the section of the people that is marginalized and impoverished while the latter is given to woo people for electoral gains. A mammoth chunk of the governmental revenue comes from direct and indirect subsidies through which the government finances these subsidies. As a result, Government runs short of funds for infrastructural and development projects which are the long term assets. Recent Report of Reserve Bank of India stated that sharp rise in expenditure on subsidies, driven by farm loans waivers, free/subsidised services like electricity to agriculture and households, transport, gas cylinder, cash transfers to farmers, youth and women could crowd out critical resources for the economic development.

1. **Free Rider issues and Dependency syndrome:** Freebies decreases the competitiveness in the economy and created dependency and entitlement among the recipients. People expect more freebies and evade from hardwork, leading to low production and revenue generation in the economy.
2. **Macroeconomically Unstable:** Freebies puts tremendous pressure on the state finances, impacting the macroeconomic stability. Increasing public expenditure on subsidies, cash transfers, free utility services strain the budgetary resources of the government and affect its ability to invest in other developmental projects.
3. **Environmentally Unsustainable:** Freebies have a negative impact on the environment by posing a threat of over-exploitation and wastage of natural resources. It reduces the incentives for conservation and increase pollution levels and carbon footprint.
4. **Improper Resources Mobilisation:** Freebies distort the expenditure priorities, leading to misallocation of resources, by diverting funds from more productive sectors to the unproductive distribution of freebies.

### III. Suggestions

• **Clear demarcation between freebies and welfare:** Schemes on low cost education and healthcare led to the empowerment of marginalized sections while freebies are wastage of taxpayers money. People should be aware of the objectives of welfare schemes. Civil society, economists should discourage these freebies in the garb of welfare.

• **Prior analysis and assessment:** Governments should disclose the financing and trade-offs of freebies to the people. This would include the impact on fiscal balance, working culture, productivity, sustainability of freebies and opportunity cost of public spending.

• **Equitable and Inclusive development:** Freebies though has some short term benefits but in the long run it puts the state exchequer in peril. Hence, Inclusive growth based on poverty alleviation, skill development, infrastructural development, financial inclusion should be the goal of the government. It can be the most effective alternative to freebies.

• **Fiscal Discipline:** As per the Fiscal Responsibility and Budget Management (FRBM) rules, the states cannot exceed their borrowing limit of 3% of the Gross State Domestic Product (GSDP). Hence it prohibits the states from reckless borrowing and induces states to practice fiscal prudence.

• **Voter awareness:** Educating the voters about the economic and social consequences of freebies and its distortionary effects. Accountability, Transparency and performance is the need of the hour.

### IV. Conclusion

The prevalence of freebies and populist schemes in Indian states, especially Himachal Pradesh and Punjab, underscores a growing concern over the sustainability of such measures. While intended as instruments of welfare and empowerment, these schemes often lack targeted implementation and fiscal foresight, resulting in mounting debt burdens and severely strained state finances. The debt-to-GSDP ratios in Himachal Pradesh and Punjab—42.5% and 50% respectively—highlight the alarming fiscal stress that arises when populist promises override prudent economic planning.

Freebies, when limited to merit goods such as education and healthcare, can indeed serve the purpose of reducing inequality and empowering marginalized communities. However, the indiscriminate and politically motivated distribution of non-merit subsidies often leads to fiscal mismanagement, dependency, and a decline in public investment in infrastructure and growth-oriented sectors. The financial crises faced by both Himachal Pradesh and Punjab—marked by delayed salaries, halted development works, and increasing public debt—serve as cautionary examples of the long-term consequences of populist politics.

To ensure sustainable growth and inclusive development, there is an urgent need to distinguish between welfare measures and electoral giveaways. Fiscal discipline must be upheld through mechanisms like the FRBM Act, while investments must be redirected toward productive sectors that generate employment and long-term returns. Enhancing voter awareness, conducting thorough cost-benefit analyses of schemes, and promoting transparent governance are essential steps to restoring fiscal balance and steering the economy toward the goal of *Viksit Bharat* by 2047.

In essence, while welfare cannot be abandoned, it must be responsibly designed, effectively targeted, and financially sustainable. Only then can states fulfill their developmental mandates without jeopardizing their economic future.

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