

Assessing the Fiscal Impact of Freebie Politics in Indian States: A Comparative Case Study of Tamil Nadu and Delhi

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Abstract

In recent years, the surge in populist "freebie politics" has become a defining feature of electoral strategies in Indian states, with Tamil Nadu and Delhi standing as prominent examples of this phenomenon. This paper delves into the fiscal health implications of these freebie policies, scrutinizing their impact on both immediate political gains and long-term financial stability. Drawing on secondary data from state budgets, Reserve Bank of India (RBI) reports, and previous research studies, the analysis focuses on a comparative examination of the two states. By evaluating key fiscal indicators such as state GDP, receipts, expenditure, fiscal surplus, debt levels, and growth rates, this paper explores how these policies shape the financial landscape of Tamil Nadu and Delhi.

The study uses a blend of regression analysis and fiscal modeling to assess the relationship between social expenditure and fiscal deficits, unveiling the delicate balance between welfare provisioning and state fiscal health. Additionally, the paper probes the broader economic, social, and political consequences of these freebies, analyzing their effects on poverty reduction, literacy rates, unemployment, and social sector investment. In doing so, the paper evaluates whether these policies have indeed benefited the political parties or merely resulted in temporary electoral advantages that may harm long-term fiscal sustainability.

While freebie policies may bring short-term welfare gains, the paper finds that they are often accompanied by rising debt, fiscal deficits, and social inequality, potentially undermining the broader development agenda. Ultimately, the study advocates for a more targeted, transparent, and sustainable approach to welfare schemes, which balances electoral populism with long-term financial and social sustainability. This research provides valuable insights into the complex interplay between fiscal policy, political strategy, and social welfare in India's state-led governance model.

Keywords: Fiscal indicators, Freebie politics, Welfare schemes, Debt, Sustainability

1. Introduction

The rise of "freebie politics" in India, particularly in Tamil Nadu and Delhi, has become a pressing governance issue. Political parties increasingly deploy populist promises—offering free goods and services—as a strategic tool to secure electoral gains, often overlooking long-term fiscal consequences. This paper examines whether these policies truly enhance social welfare or merely serve as mechanisms for political opportunism.

In recent years, schemes such as free electricity, water, and healthcare have dominated political discourse. While these measures provide immediate relief, they impose a significant burden on state finances, exacerbating fiscal deficits, escalating debt, and diverting resources from critical developmental projects. Politicians leverage the electorate's demand for quick economic respite, making these policies an expedient yet short-sighted approach to governance.

This trend mirrors the Roman Empire's "bread and circuses," where rulers maintained public favor through gratuitous provisions rather than addressing structural socio-economic issues. Similarly, contemporary freebie schemes, while momentarily alleviating hardships, often fail to tackle deeper problems such as unemployment, education, and healthcare infrastructure deficiencies.

This study conducts a fiscal analysis of Tamil Nadu and Delhi, evaluating key indicators such as state GDP, fiscal deficits, debt levels, and social sector investments. By assessing the broader economic, social, and political ramifications, the research seeks to determine whether freebie policies contribute to genuine welfare improvements or function as temporary electoral strategies that compromise sustainable development.

While populist welfare schemes may yield short-term socio-economic benefits, their long-term viability remains questionable. Rising debt and fiscal imbalances risk undermining development goals. The paper ultimately advocates for a more transparent and sustainable approach to welfare, balancing electoral populism with prudent financial management and long-term socio-economic stability.

2. Literature Review

Freebies often serve only some people, and eventually, the taxpaying public is saddled with the financial cost, although everyone loves to receive free stuff and services.

Sushree Sangeeta Mukhi, Dr. B. B. Tiwari, and Sneha Gosh argue that freebies may be short-term political benefits, but they ultimately result in fiscal deficits and dislocate economic incentives. This is corroborated by the available literature, which outlines the deleterious economic effect of freebie disbursement uninhibited. This is intended to highlight the importance of maintaining policy guidelines that ensure selective social welfare schemes are balanced with fiscal restraint. There are a few research papers which have testified to the fact that this policy is important to ensure fiscal well-being and sound economic growth.

In his article Rohan Bavadekar (2022) analyzes the reasons behind Discoms' failures and their inability to repay financial losses. He indicates that past freebie policies are still burdening the current electricity generation board, and if the trend of providing free electricity continues, Discoms can be on the brink of a shutdown crisis. Additionally, loan waivers announced during elections have overwhelmed the banking sector and pushed it toward becoming a loss-making, unsustainable business.

In his paper Janees Rafiq (2024) argues that while social welfare is essential in a country like India, unchecked electoral freebies can have harmful consequences. Rafiq stresses the necessity for policymakers to be careful to balance short-term welfare policies and long-term economic and democratic stability. Through lessons from international examples such as Venezuela and Sri Lanka, he promotes strategic reforms in matters of responsible governance while at the same time providing for sustainable voter participation.

In their article Mohammad Rafi Rahimi and Arika Prabhakar (2024) write about the distinction between welfare schemes and political freebies. Referring to Amartya Sen, they observe that well-designed welfare programs promote long-term growth by enhancing human capabilities. Whereas political

handouts are excessive, though, they can strain public coffers, resulting in budget deficits. Whereas programs such as India's MGNREGA enhance productivity, free-for-all freebies give rise to economic anarchy. Their work emphasizes prudence in finances in social policy. Brazil's Bolsa Família is the epitome of good welfare governance, while Sri Lanka's subsidy schemes demonstrate fiscal vulnerabilities. They contend that political motivations are most likely to be the driving forces behind unsustainable practices, and they advocate a balanced approach in favor of social welfare without jeopardizing fiscal security.

In their research paper Dr. Sravan Kumar Reddy and Dr. Geeta (2024) analyze how electoral freebies are employed by parties as a means of vote-seeking, which has consequences on governance, economic stability, and voting behavior. They link such practices to patronage politics, particularly in third-world countries. Economically, these handouts strain public budgets, leading to fiscal imbalances and lower investment in the future. Politically, giveaways induce voters to rely on short-term benefits rather than institutional changes. Legally, the position of giveaways is contested, and concerns exist whether giveaways constitute bribery or genuine welfare. Alternatives that have been suggested include focused social programs and conditional cash transfers. While freebies are gratifying in the moment, they are ultimately harmful to economic stability and democratic governance. Future research must prioritize regulatory policies and sustainable welfare strategies.

3. Research Gap

Freebies, as politically useful, finally result in fiscal deficits and economic instability. Previous research indicates their burden on banking, governance, and utilities such as Discoms, but the long-term effect on voter psychology is still uninvestigated. A sharper differentiation between effective welfare schemes and unsustainable political freebies needs to be done to craft well-balanced policy schemes. The legal and ethical effects of freebies, especially if they amount to electoral bribery, need to be studied further. Future studies need to concentrate on sustainable governance models that promote social welfare without sacrificing economic resilience.

4. Research Objectives

This research seeks to evaluate the financial consequences of freebie politics in Indian states, concentrating on Tamil Nadu and Delhi, by examining the effects of welfare expenditures, subsidies, and state debt on their Gross Fiscal Deficit (GFD).

- The research will examine the extent of welfare expenditure and subsidization in Tamil Nadu and Delhi through an analysis of major government schemes and allocations in the budget.
- It will seek to examine the impact of state borrowing and fiscal debt on the Gross Fiscal Deficit in both states.
- The research will investigate whether policies concerning freebies are leading to long-term fiscal problems in Tamil Nadu and Delhi.
- Comparison will be done based on fiscal sustainability of freebie-based policies in Tamil Nadu and Delhi by analyzing trends in expenditure and liabilities.
- Lastly, the research will offer policy suggestions aiming to strike a balance between welfare programs and fiscal responsibility.

5. Research Hypotheses

H₀₁: There is no significant impact of welfare spending on Gross Fiscal Deficit.

H_{a1}: There is significant impact of welfare spending on Gross Fiscal Deficit.

H₀₂: There is no significant impact of State Debt on Gross Fiscal Deficit.

H_{a2}: There is significant impact of State Debt on Gross Fiscal Deficit.

H₀₃: There is no significant impact of Subsidies on Gross Fiscal Deficit.

H_{a3}: There is significant impact of Subsidies on Gross Fiscal Deficit.

6. Research Methodology

This research utilizes a quantitative and comparative methodology to evaluate the fiscal effects of freebie politics in Tamil Nadu and Delhi from 2014-15 to 2023-24. It is based on secondary data sources, such as state budget documents, RBI state finance reports, CAG audit findings, PRS Legislative Research, and official government websites. The study concentrates on significant fiscal indicators, including government spending on welfare programs, subsidies, state debt, and fiscal deficits. Descriptive analysis is employed to assess trends in these indicators throughout the study period. Additionally, regression analysis is performed to ascertain the impact of welfare expenditures, state debt, and subsidies on the states' fiscal health. The research further involves a comparative analysis of Tamil Nadu and Delhi to investigate variations in their spending patterns and fiscal viability. Possible limitations include constraints on data availability for scheme expenditures and external macroeconomic factors that may affect state finances. Nevertheless, the study intends to offer insights into the sustainability of welfare-focused policies and their long-term fiscal impacts. The results will enhance the policy discussion on reconciling social welfare with prudent fiscal management.

7. Regression-Based Assessment of Freebie Politics in Tamil Nadu and Delhi

In the table below, regression analysis is conducted to evaluate the impact of key fiscal variables—welfare spending, subsidies, and state debt—on the Gross Fiscal Deficit (GFD) of Tamil Nadu and Delhi from 2014–15 to 2023–24. The variables are assessed individually across both states to examine their statistical significance and the strength of their relationship with fiscal deficits. Data is sourced from official government portals, RBI state finance reports, PRS Legislative Research, and CAG audit reports. Each regression output is interpreted based on R-squared values, p-values, and coefficients to determine the explanatory power of the variables. The analysis is structured to provide empirical evidence on whether welfare-oriented expenditures and fiscal liabilities contribute significantly to fiscal stress. A comparative framework is adopted to identify patterns and differences between the two states' fiscal management approaches. The data used for the regression analysis is provided below in the appendix tables at the end for reference and transparency.

Summary of Regression Output for Key Fiscal Indicators Affecting Gross Fiscal Deficit

	TAMIL NADU			DELHI		
INDICATORS	Gross Fiscal Deficit and Welfare	Gross Fiscal Deficit and State Debt	Gross Fiscal Deficit and Subsidies	Gross Fiscal Deficit and Welfare	Gross Fiscal Deficit and State Debt	Gross Fiscal Deficit and Subsidies

	Spending			Spending		
Multiple R	0.8958	0.8804	0.8699	0.8096	0.1844	0.8717
R Square	0.8025	0.7751	0.7567	0.6555	0.0340	0.7599
Adjusted R Square	0.7779	0.7470	0.6958	0.6124	-0.0868	0.6798
Standard Error	11356.24	12119.07	10136.58	2636.85	4415.54	2086.68
F-statistic	32.5150	27.5751	12.4384	15.2226	0.2816	9.4931
F(p-value)	0.0005	0.0008	0.0243	0.0045	0.6101	0.0541
p-value for X	0.0005	0.0008	0.0243	0.0045	0.6101	0.0541

Observation, Interpretation & Analysis

This section presents the regression-based analysis of the impact of welfare spending, state debt, and subsidies on the Gross Fiscal Deficit (GFD) of two Indian states—Tamil Nadu and Delhi. The models evaluate how these three key fiscal components contribute to rising deficits amid ongoing freebie politics.

Tamil Nadu

• Welfare Spending and GFD

- The regression model shows a very high R^2 of 0.80, indicating that 80% of the variation in GFD is explained by welfare spending.
- The coefficient ($\beta = 0.84$) suggests that every ₹1 increase in welfare expenditure leads to a ₹0.84 increase in the fiscal deficit.
- The model is highly significant ($p < 0.001$), confirming the strong and direct impact of welfare schemes on the state's fiscal burden.

• State Debt and GFD

- With R^2 of 0.77 and p -value < 0.001 , the model is statistically strong.
- The coefficient ($\beta = 0.092$) implies that an increase in debt has a positive but relatively smaller effect on the fiscal deficit.
- This suggests that Tamil Nadu's borrowing contributes to its GFD, but not as heavily as welfare-related spending.

• Subsidies and GFD

- The regression shows $R^2 = 0.75$ and a moderate coefficient ($\beta = 0.30$), with statistical significance ($p = 0.024$).
- Subsidy expenditure increases fiscal deficit, although its impact is not as large as that of welfare spending.

Summary (Tamil Nadu): Welfare schemes are the dominant contributor to Tamil Nadu's fiscal deficit, followed by subsidies and then borrowing. The state's model of generous welfare provision without adequate revenue backing reflects a structurally high fiscal pressure.

Delhi

• Welfare Spending and GFD

- The R^2 value of 0.65 indicates a moderate explanatory power.

- The coefficient ($\beta = 0.39$) shows that for every ₹1 increase in welfare spending, the GFD rises by ₹0.39.
- The result is statistically significant ($p = 0.0045$), confirming the fiscal implications of Delhi's welfare policies.
- **State Debt and GFD**
 - The model yields very weak explanatory power ($R^2 = 0.03$) and is statistically insignificant ($p = 0.61$).
 - The negative coefficient ($\beta = -0.06$) is not meaningful.
 - This reflects that in Delhi, state debt does not significantly impact the fiscal deficit, likely due to its limited borrowing powers under the Union Territory framework.
- **Subsidies and GFD**
 - R^2 is high at 0.76, with a coefficient of $\beta = 5.53$, suggesting a strong economic effect of subsidies on the fiscal deficit.
 - However, the p-value is marginal ($p = 0.054$) due to a small sample size, meaning statistical confidence is weaker.
 - The result hints that subsidies in Delhi, although impactful, require further investigation for robust conclusions.

Summary (Delhi): Welfare and subsidy expenditures are the key influencers of Delhi's fiscal deficit. Debt plays an insignificant role. Compared to Tamil Nadu, the magnitude of impact is less aggressive, possibly due to a narrower welfare base and stronger revenue collection.

Comparative Insights

Indicator	Tamil Nadu	Delhi
Welfare Spending - GFD	Strong, significant impact ($\beta = 0.84$)	Moderate, significant impact ($\beta = 0.39$)
State Debt - GFD	Moderate, significant ($\beta = 0.092$)	No impact, insignificant ($\beta = -0.06$)
Subsidies - GFD	Moderate, significant ($\beta = 0.30$)	High coefficient, marginal significance ($\beta = 5.53$)

8. Results and Discussion

The regression analysis investigates the impact of welfare spending, state debt, and subsidies on the gross fiscal deficit of Tamil Nadu and Delhi from 2014–15 to 2023–24. The findings indicate that both states face fiscal stress associated with welfare expenditures; however, Tamil Nadu's fiscal deficit is more directly and significantly influenced by these outlays. In contrast, Delhi demonstrates relatively lower borrowing-related fiscal pressure, while welfare spending remains statistically significant.

In terms of hypothesis testing, H_{01} (welfare spending) is rejected for both states, indicating a statistically significant impact of welfare spending on the gross fiscal deficit. For H_{02} (state debt), the hypothesis is rejected in the case of Tamil Nadu, confirming a significant influence of debt on the fiscal deficit, while it is accepted in the case of Delhi, suggesting that debt does not significantly impact Delhi's fiscal balance under the model. For H_{03} (subsidies), the hypothesis is rejected for Tamil Nadu ($p = 0.024$), while it is not rejected for Delhi at the 5% significance level ($p = 0.054$). The Delhi subsidy result is

marginal and requires further investigation, particularly given the small sample size. These results underline the importance of maintaining a balance between social welfare commitments and prudent fiscal management.

9. Schemes Introduced by Political Parties

Sectors	Tamil Nadu	Delhi
Consumer Goods and Household Subsidies	• Free Electricity for Farmers → 100% subsidy on electricity for agricultural pumps. • Free LPG Cylinders (Uzhavar Pathukappu Thittam) → 3 free gas cylinders per year for poor families. • Amma Canteens → Heavily subsidized meals (₹1 idli, ₹5 sambar rice) for the poor.	• Free Electricity Scheme → Up to 200 units of electricity free, 50% subsidy on 201-400 units. • Free Water Scheme → 20,000 liters of free water per household per month.
Education and Skill Development	• Free Laptops for Students → Distributed to government school students. • Pudhumai Penn Scheme → ₹1,000/month financial aid for female college students. • Free School Kits → Textbooks, uniforms, cycles for government school students.	• Free Education in Government Schools → No tuition fees, free books, and uniforms for students. • Mission Buniyaad → A program to improve foundational learning in government schools. • Jai Bhim Mukhyamantri Pratibha Vikas Yojana → Free coaching for SC/ST/OBC students for UPSC, NEET, JEE, etc.
Healthcare	• Makkalai Thedi Maruthuvam (Doorstep Healthcare Scheme) → Free home visits for elderly patients. • Chief Minister's Comprehensive Health Insurance Scheme (CMCHIS) → Free medical treatment for low-income families.	• Mohalla Clinics → Free primary healthcare services and medicines in neighborhood clinics. • Farishtey Scheme → Free emergency treatment for accident victims in private hospitals.
Transport and Mobility	• Free Bus Rides for Women → Women can travel for free in government buses. • Subsidized Metro Travel for Students → Discounted metro fares for school and college students.	• Free Bus Rides for Women → Women travel for free in Delhi Transport Corporation (DTC) buses. • Subsidized Metro Fare Demands → Though not implemented, there were

		demands for reduced metro fares.
Direct Cash Benefits and Other Schemes	• Kalaigal Magalir Urimai Thogai Scheme → ₹1,000/month to women heads of households. • Marriage Assistance Schemes → ₹25,000-₹50,000 cash aid + gold for women from poor families. • Muthulakshmi Reddy Maternity Scheme → ₹18,000 cash transfer for pregnant women.	• Mukhyamantri Teerth Yatra Yojana → Free pilgrimage tours for senior citizens. • Doorstep Delivery of Government Services → Free home delivery of documents like ration cards and driving licenses.

10. Policy Recommendations

- Government welfare spending should prioritize programs with long-term economic benefits, such as education, skills development, and healthcare, over short-term freebies.
- Utilizing an evidence-based method for evaluating eligibility of subsidies and deconstruction or rethinking unproductive schemes could maximize budget allocations without compromising provision of aid to qualifying groups.
- Political parties must submit an entire-of-government fiscal sustainability assessment of all the welfare commitments to an independent third party such as the Finance Commission or the CAG to bring in accountability and transparency.
- Governments should adopt performance-linked budgeting, linking spending on social programs to measurable economic and social effects, to ensure accountability and efficiency of resources.

11. Conclusion

This study has examined the financial effects of freebie politics in Tamil Nadu and Delhi by looking at how welfare spending, state debt, and subsidies relate to their Gross Fiscal Deficit (GFD). The findings show that welfare spending has a statistically significant association with the fiscal balance in both states, with Tamil Nadu showing a stronger relationship. Its significant welfare programs, like free laptops and subsidized rice, heavily contribute to the fiscal deficit. In Delhi, welfare spending has a moderate effect, while its borrowing does not have a notable impact. Overall, Tamil Nadu faces greater fiscal pressure in the models examined, while Delhi shows a lower borrowing-related fiscal impact. The results emphasize the need for effective fiscal planning and revenue generation to maintain long-term financial health and development.

12. Limitations and Scope for Future Study

This study is limited by data constraints, as state-wise expenditure details on specific welfare schemes may not be fully transparent or standardized across different reports. Additionally, the study focuses on fiscal indicators without accounting for social and economic benefits of these schemes, which could provide a more holistic evaluation. Future research can expand by incorporating micro-level household data to assess the actual impact of freebies on beneficiaries. Comparative studies across multiple states

and over longer time horizons can further enhance understanding. Additionally, exploring alternative funding mechanisms for welfare schemes can provide valuable insights for policymakers.

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