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Freebies and their Impact on Social Sector Expenditure: Evidence from Rajasthan State

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ABSTRACT

This research paper analyses the impact of freebies on social sector expenditure (education and health) and fiscal deficit of Rajasthan, with a focus on their dual impact on social development and fiscal health. Using secondary data from the Economic Review, State Budgets, and Comptroller and Auditor General (CAG) reports, the study examines trends in allocations to welfare schemes, from the period of 2010-11 to 2024-25. The objective of the study examines the relationship between freebies, social sector allocations and fiscal deficit. The results reveal that freebies in education and health exert a statistically significant and positive influence on social sector expenditure, suggesting that populist measures often lead to increased budgetary allocations in these sectors. Trend analysis further shows a simultaneous rise in the proportion of freebies with persistent fiscal deficit and growing debt burden, raising questions about the long-term sustainability of such policies. The study concludes that while freebies may enhance short-term social expenditure and electoral gains, they risk undermining fiscal stability if not supported by robust revenue generation and targeted welfare frameworks.

Keywords: Economic Impact, Fiscal Deficit, Freebies, Social Sector Expenditure, Welfare Expenditure,

Introduction

The concept of "freebies", has become a salient feature of Indian politics, especially in states like Tamil Nadu, Rajasthan, West Bengal, Punjab, etc. Rajasthan stands as a prominent example of this practice, often termed as 'Revdi Culture', type of sweet, large amounts of often unplanned giveaways to people. It has allocated nearly one-third of its 2023-24 state budget to social

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programs delivering free or heavily subsidized goods and services across sectors. The Reserve Bank of India (Political Intent nuance: 2023-24 report) defines freebies as government-provided goods or services often aimed more at securing political support than building lasting productive capacity in the economy. In India's political landscape, freebies are often justified by politicians as essential redistributive tools, leading to their establishment in electoral strategies.

The social sector broadly encompasses education, health, rural development, housing, water and sanitation, nutrition, social security, women and child welfare, and employment schemes, which is integral in improving human development indicators. Schemes like Mukhyamantri Chiranjeevi Swasthya Bima Yojana, which provides health insurance; the Anuprati Coaching Scheme, offering educational assistance; and the Bhamashah Yojana, a direct benefit transfer platform. Complementing these initiatives, government also provide free scholarships, uniforms, scooty, etc, to keep up the vote bank politics.

Public expenditure on sub-sectors has a statistically significant positive impact on economic growth in the long run *(Mishra et al, 2020).* Due to these practices, the biggest factor worsening the fiscal deficit is outstanding liabilities (debt), followed by social sector expenditure and subsidies. *(Mukhi et al, 2024).* Whereas, strategic investments in the social sector contribute to poverty reduction, improved labour productivity, and enhanced quality of life, factors essential for inclusive growth. It calls for policymakers to prioritize efficient allocation of resources to social services to sustain and accelerate India's growth trajectory *(Ray and Sarangi, 2021).*

(Amitava, 2021) reveals that social sector spending has generally increased post-reforms but remains unevenly distributed across sectors and regions. While initiatives focused on health, education, and poverty alleviation received significant attention, expenditures on populist schemes, some bordering on freebies have also grown, raising concerns about fiscal sustainability. While social welfare programs have achieved notable successes in poverty alleviation and economic inclusion, their overall impact is uneven and hindered by implementation challenges. Policy reforms focusing on governance, accountability, and sustainability are essential to maximize long-term social and economic benefits *(Chaudhary, 2024).* Rajasthan's aggressive policy on free medicines and treatment in government, including some private hospitals has been widely recognized as a milestone in improving healthcare accessibility.

(Bhatnagar, 2024) discusses the potential inflationary effects induced by increased disposable incomes due to freebies, which can outpace supply and increase production costs, ultimately eroding the real value of cash benefits. Moreover, the fiscal burden often crowds out essential spending on these sectors, raising questions about the opportunity cost of policies. The economic trade-offs involved in freebies are complex and multidimensional. On the one hand, free

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provision of health and education services generates immediate welfare gains and also encourages greater social inclusion. On the other, often poorly targeted nature of freebies results in inefficient allocation of resources, weakens labour incentives, and encourages a "culture of dependency".

Fiscal implications of such expenditures, pointing out that freebies strain state budgets and contribute significantly to rising fiscal deficits and mounting outstanding liabilities. It argues that while freebies may have short-term political gains, they often undermine long-term governance objectives by diverting funds from productive social investments to politically motivated handouts *(Vashishtha, 2023).* They often result in fiscal stress by escalating public expenditure without sustainable development outcomes, threatening the fiscal health of states marked by already high outstanding liabilities and deficits. Rajasthan is cited as an example where escalating social sector expenditure on populist freebies strains the state budget and complicates effective governance *(Moundekar et al, 2025).*

Despite growing attention to fiscal sustainability, limited research has explored the developmental impacts of freebies in education and health. Most existing studies highlight the fiscal burden while overlooking positive outcomes, and they mainly delve on secondary data, restricting implementation-level insights. Moreover, the focus has largely been on expenditure trends rather than actual sectoral outcomes, with little state-specific analysis. In the case of Rajasthan, where welfare-driven spending is significant, this gap becomes particularly relevant and calls for deeper investigation.

This paper examines how Rajasthan's growing reliance on freebies in education, health, and welfare schemes has improved individual welfare but strained public finances and proposes policy measures to balance social objectives with fiscal responsibility.

Objectives

The objective of the study are as follows:

- To examine the impact of expenditure on freebies in social sector (education and health) of Rajasthan.
- To analyse the effect of freebies related social sector expenditure on the fiscal deficit of the state.

Hypotheses of the study are as follows:

1. H_0: There is no significant impact of providing freebies on social sector expenditure in education and health.

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2. H_0: Social sector expenditure on freebies does not affect the fiscal deficit of the state.

Data Sources and Methodology

The study is based on secondary data sources covering the period of 15 years from 2010-11 to 2024-25. Data is collaborated from Rajasthan Finance Department Budget Documents (2010-11 to 2024-25), Comptroller and Auditor General (CAG) Audit Reports: State Finances (2016, 2020) and General & Social Sector Audit (2020), Economic Reviews and Budget at a Glance documents, Research reports from BARC Trust, CBGA, NIPFP, and SSRN and the RBI State Finance Reports and annual reports of handbook of statistics on Indian states.

It is explanatory in nature and Ordinary Least Square (OLS) Method is employed to fulfill the objectives of the study.

Table 1: Description of Variables

Variables	Abbreviations	Definition
Social Sector Expenditure on Education and Health	SSE_{EH}	Total Government Expenditure incurred on education and health sectors, usually classified under the social services head. It includes both revenue and capital expenditure.
Freebies distributed in Education and Health	FB_{EH}	It is the value of non-merit goods or transfers provided free of cost in education and health sectors, such as free textbooks, laptops, etc. These are distinct from general development expenditures as they direct benefit to individuals.
Gross State Domestic Product (Rajasthan)	GSDP	It is the total monetary value of all goods and services produced within a state during a financial year, measured at constant and current prices. It reflects the economic size and performance of the state economy.
Fiscal Deficit	FD	It is the excess of total government expenditure over total non-debt receipts (revenue receipts plus non-debt capital receipts). It represents the borrowing requirement of the government in a given financial year.
Total Freebies Expenditure in Social Sector	FB_{SS}	It is the value of non-merit goods or transfers provided free of cost in social sector such as education, health, rural development, labour, women, etc. They provide direct benefit to individual.

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Inflation	INF	To compute rate of inflation, GDP Deflator was used which is calculated by dividing Current GSDP to Constant GSDP and multiply it by 100.

Four functional forms of the regression models which have been applied are as follows:

To address the first objective, the study examines how social sector freebies in education and health influence overall sectoral expenditure, the following models were used:

1. Lin-lin Model

$$SSE_{EH} = \alpha + \beta_1 FB_{EH} + \beta_2 GSDP + \mu_i$$

The dependent and explanatory variables are taken in their original levels. The coefficient (β_1) measures the absolute change in SSE_{EH} due to a one-unit change in the FB_{EH} (independent variable) and its effect on GSDP (control variable).

2. Log-Log Model

$$\ln(SSE_{EH}) = \alpha + \beta_1 \ln(FB_{EH}) + \beta_2 \ln(GSDP) + \mu_i$$

Both dependent and explanatory variables are expressed in logarithms. Here, the coefficients represent elasticities, i.e., the percentage change in SSE_{EH} with respect to a 1% change in FB_{EH} and GSDP.

3. Log-Lin Model

$$\ln (SSE_{EH}) = \alpha + \beta_1 FB_{EH} + \beta_2 GSDP + \mu_i$$

The dependent variable is log-transformed while explanatory variables are kept in levels, the coefficient indicate the semi-elasticity of SSE_{EH}, meaning the approximate percentage change in SSE_{EH} for a one-unit change in the independent variable.

4. Lin-Log Model

$$SSE_{EH} = \alpha + \beta_1 \ln (FB_{EH}) + \beta_2 \ln (GSDP) + \mu_i$$

The explanatory variables are log-transformed, while the dependent variable remains in levels. The coefficients show the absolute change in SSE_{EH} due to 1% change in FB_{EH} and GSDP.

For the second objective, the effect on fiscal deficit of expenditure of freebies in social sector, the log-log model was used:

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$$\ln(FD) = \alpha + \beta_1 \ln(FB_{SS}) + \beta_2 \ln(GSDP) + \beta_3 \ln(INF) + \mu_i$$

All dependent, independent and control variables are log-transformed. The coefficients measure elasticities, i.e., the percentage change in FD for a 1% change in FB_{SS} and its effect on control variables (GSDP and INF).

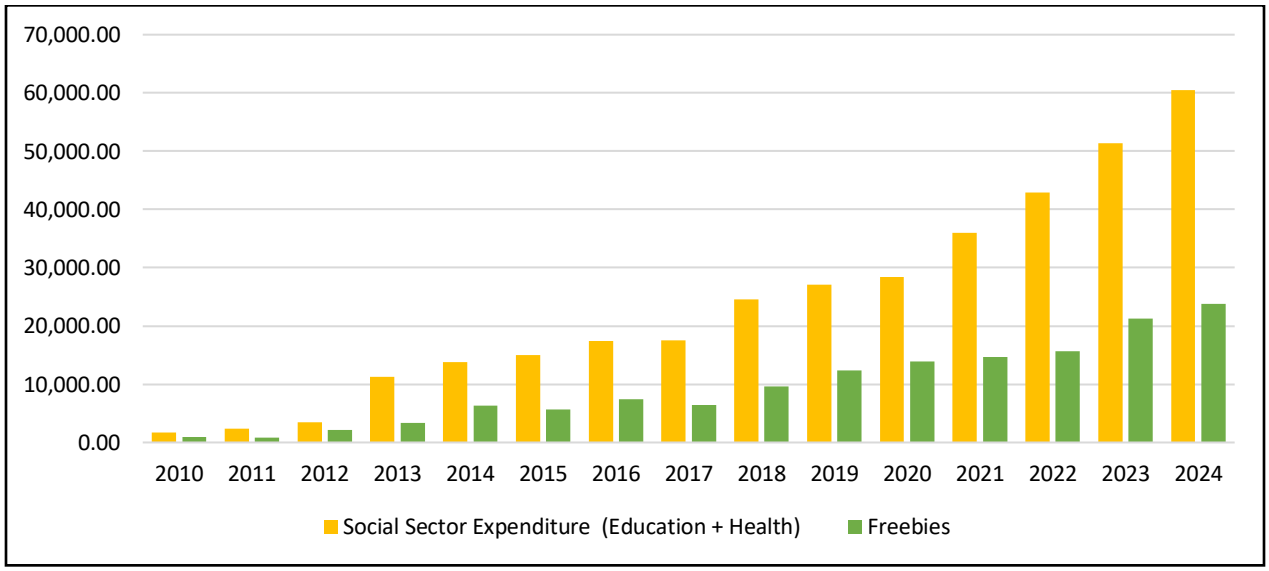
The estimation results under different functional forms allow for comparison and identification of the most appropriate specification, based on statistical fit and theoretical consistency.

To ensure the validity and reliability of the regression estimates, a series of diagnostic tests were conducted.

Trend and Pattern of Freebies Allocation

In Rajasthan, the two subsectors of social sector, i.e., education and health were considered for the allocation of free material goods. These are specifically studied because of higher expenditure of freebies in these two sectors.

Figure 1: Social Sector Expenditure and Freebies



Source: Collected from Budget at a Glance of various years

The trend analysis in figure 1 of social sector expenditure shows a gradual and consistent rise in allocations over time, underlining the government's focus on welfare-driven growth. Within this framework, the share of freebies has steadily increased, especially in education and health. Although freebies initially constituted only a marginal proportion of total social sector

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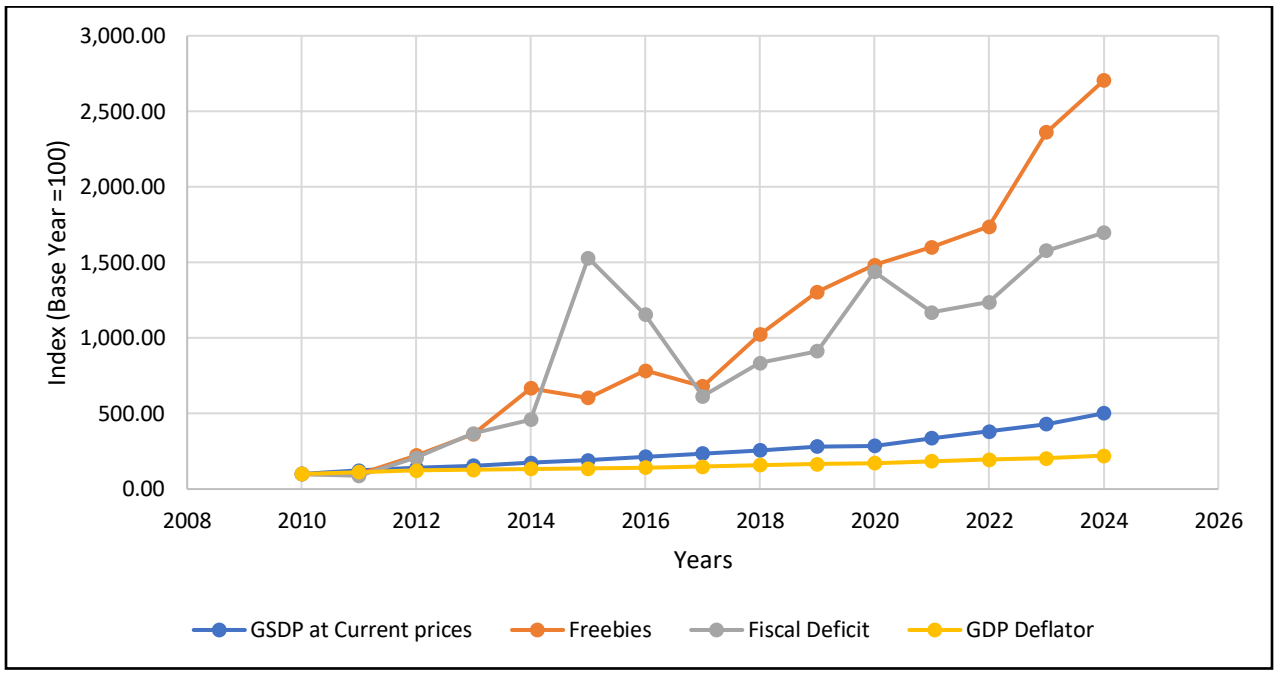
expenditure but in recent years, they reflect their growing prominence as direct benefit schemes and subsidy-based measures gained traction. This pattern demonstrates a policy shift towards immediate welfare outcomes and populist commitments, even as questions about the efficiency and sustainability of such spending persist.

Figure 2: Growth Rate of Variables



Source: Collected from Budget at a Glance and Economic Review of various years

The indexed trends presented in Figure 2 clearly establish the fiscal implications of rising freebies in Rajasthan's social sector. Freebies have shown an exponential increase since 2016, crossing over 2,500 index points by 2024, while GSDP at current prices has grown modestly to remain below 400 points. This disproportionate rise highlights how expenditure commitments on freebies have significantly outpaced the state's income base. A close movement can also be observed between freebies and the fiscal deficit, where sharp surges in freebie expenditure, particularly during 2014–2015 and post-2018, coincide with a worsening fiscal deficit trajectory.

In contrast, the GDP deflator has remained relatively flat, and the gradual growth of GSDP has been insufficient to cushion the fiscal stress generated by freebies. These patterns provide strong evidence that expansion of social sector freebies has exerted direct pressure on Rajasthan's fiscal health, leading to a sustained rise in fiscal deficits and raising concerns about the long-term sustainability of such populist measures.

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To provide an overview of the dataset and establish the basic characteristics of the variables used in the empirical analysis, descriptive statistics have been computed. Table 2 presents the key variables, namely social sector expenditure (education and health), expenditure on freebies, and GSDP at constant prices is taken as a measure of the growth performance of Rajasthan.

Table 2: Descriptive Statistics of Variables

	Mean	SD*	Min*	Max*	Observations
Social Sector Exp. (Edu. & Health)	23536.70	17175.27	1670.6	60460.28	15
Exp. on Freebies	9643.04	6905.94	885.39	23844.84	15
GSDP	622228.80	145368.79	401347.07	906294	15

Source: Author's calculation

**SD= Standard Deviation, Min= Minimum, Max= Maximum*

Social sector expenditure is crucial for human capital formation, while freebies represent welfare commitments of the state.

The descriptive statistics reveal significant variation in social sector expenditure, with a mean value of ₹23,536.70 crore and a wide dispersion (SD of ₹17,175.27 crore), suggesting considerable expansion over time. Expenditure on freebies shows a mean of ₹9,643.04 crore with notable variability (SD of ₹6,905.94 crore), reflecting the growing fiscal importance of such schemes. The GSDP at constant prices averages ₹622,228.80 crore with relatively high variation, indicating overall economic growth during the study period. The minimum and maximum values further underline the sharp upward trend in both social sector and freebie expenditure over time. Together, these statistics set the stage for the empirical estimation, as they demonstrate the relative weight of welfare commitments and freebies against the state's economic performance.

Empirical findings

Impact of Freebies on Social Sector Expenditure in Education and Health

Four functional forms were estimated using OLS approach namely, lin-lin, log-log, log-lin, and lin-log models. Multiple functional forms were included to ensure the robustness of results and identify the best fit.

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Table 3: Results of the Regression Model: Using OLS Approach

	Lin-lin	Log-log	Log-lin	Lin-log
Coefficient	α= -20550.47	α= -5.25	α= 4.24	α= -1186256
	β_1= 1.47	β_1= 0.93	β_1= -6.52	β_1= -6087.01
	β_2= 0.05	β_2= 0.51	β_2= 9.72	β_2= 94891.42
t-statistic	α= -2.52**	α= -0.68	α= 2.50**	α= -6.13***
	β_1= 3.66***	β_1= 5.84***	β_1= -0.78	β_1= -1.52
	β_2= 2.51**	β_2= 0.75	β_2= 2.44**	β_2= 5.56***
R^2	0.99	0.98	0.85	0.94
Adjusted R^2	0.98	0.97	0.82	0.93
Standard Error	2178.78	0.18	0.45	4624.28
F-statistic	460.06	244.75	34.73	97.46

Source: Author's calculation by using EViews software.
*** indicates that statistics are significant at 5% level of significance*
**** indicates that statistics are significant at 1% level of significance*

Table 3 shows the estimated coefficients, t-statistics, R^2, adjusted R^2, F-statistic and Standard Error (se). The results of diagnostic tests (autocorrelation, heteroskedasticity and normality of residuals) are provided in appendix A.

All the diagnostic tests are satisfying the appropriateness of used models. It is observed that the R^2 values are very high across all specifications (0.85 to 0.99), suggesting strong explanatory power. The F-statistics are significant in all models, indicating overall model significance. Heteroskedasticity is mostly absent. Normality of residuals is not rejected in all the models.

In Linear Model coefficients of both explanatory variables are positive and statistically significant (t-values>2). The coefficient (β_1=1.47) means a one unit increase in FB_{EH} is associated with an increase of 1.47 units in SSE_{EH}, holding GSDP constant. It suggests a positive relationship that government spending on freebies tends to push up social sector expenditure. B_2=0.05 means a unit increase in GSDP leads to an increase of 0.05 units in SSE_{EH} holding FB_{EH} constant leads to a positive impact. The model has a very high R^2 and F-statistic, indicating good fit.

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The Log-log model has both explanatory variables have positive and significant elasticities. A one percent increase in expenditure on freebies raises SSE_{EH} by 0.93%, while a one percent increase in GSDP increases SSE_{EH} by 0.51%. And the FB_{EH} are statistically significant.

The Log-lin model, suggests that higher freebies are associated with lower social sector expenditure, but the effect is statistically insignificant, so there is no reliability. Since a unit increase in FB_{EH} will decrease social sector expenditure (log transformation) by 6 units whereas a unit increase in GSDP will increase SSE_{EH} by 10 units. Therefore, GSDP shows a positive and significant impact.

The Lin-log model, the Coefficient (β_1) is negative which states that for every unit increase in FB_{EH} (in log terms), social sector spending decreases by 6087 units. Also, a one unit increase in GSDP increases social sector expenditure by 94,891 units, shows positive relation between GSDP and social sector expenditure in education and health. The t-statistic show that GSDP has a statistically significant positive effect on SSE_{EH}.

All models show that social expenditure and freebies are closely associated with GSDP. The linear model emerges as the most consistent and statistically reliable. By contrast, the log-log model provides a good elasticity-based interpretation, the t value of GSDP is small and is not statistically significant. The null hypothesis states that there is no significant impact of providing freebies on social sector expenditure in education and health. However, in the linear model, the coefficient of FB_{EH} is statistically significant ($p < 0.01$), indicating that freebies do in fact influence social sector expenditure. Since we have strong evidence against the null, we reject the null hypothesis at the 5% level of significance. Hence, the results confirm that the provision of freebies has a statistically significant impact on social sector expenditure in Rajasthan.

Relationship between Social Sector Expenditure on Freebies and the Fiscal Deficit

Table 4: Results of the Regression Model: OLS Approach

Equation	$\ln(FD) = \alpha + \beta_1 \ln(FB_{SS}) + \beta_2 \ln(INF) + \beta_3 \ln(GSDP) + \mu i$			
Coefficient	α= -1.98	β_1= 1.28	β_2= -7.96	β_3= 2.93
T-statistics	α= -0.18	β_1=4.31***	β_2= -1.57	β_3= 1.13
	R^2 = 0.92		**se (standard error)** = 0.32	
	Adjusted R^2 = 0.90		**F-statistic** = 41.08	

Source: Author's calculation by using EViews software.

**** indicates that statistics are significant at 1% level of significance*

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The OLS Method was used and results of the estimations are presented in Table 4, and the diagnostic tests (autocorrelation, heteroskedasticity, normality of residuals, model specification) are given in Appendix B.

All the diagnostic tests are satisfying the appropriateness of used model. In this Log-log model, the coefficient (β_1= 1.28) is statistically significant and states that if there is one percent increase in FB_{SS} then there will be 1.28% increase in FD showing a positive relationship. Whereas INF is showing a negative relation with FD as, if there is one percent increase in INF then FD will decrease by 8%. Lastly FD has a positive relation with GSDP also, since one percent increase in GSDP raises FD by 3%. It is observed that R^2 and adjusted R^2 are high, suggesting strong explanatory power. And F-statistic is significant too.

The statistically insignificant coefficients of GSDP and GDP deflator (inflation) suggest that in Rajasthan's case, fiscal deficit dynamics are driven less by macroeconomic fundamentals and more by discretionary political spending (freebies). This reflects a situation where weak tax revenue elasticity and policy-driven expenditure patterns dominate over structural economic factors. The ambiguous role of inflation further reduces its explanatory power in the short-run fiscal deficit behaviour.

This was the most appropriate model to satisfy all diagnostic tests. Therefore, the null hypothesis of no significant impact is rejected, providing robust evidence that the provision of freebies in the social sector contributes significantly to widening the fiscal deficit.

Therefore, both the models consistently suggest that variations in freebies have a measurable impact on social sector expenditure, emphasizing the importance of fiscal prudence in policy designs.

Conclusion

The results indicate that expenditure on freebies has a significant relationship with social sector spending in Rajasthan. While the magnitude and direction vary slightly across models, the overall evidence suggests that higher freebies are associated with measurable changes in expenditure patterns in education and health. The log-log model shows a significant relationship between social sector expenditure on freebies and the fiscal deficit. This implies that variations in spending on education and health, influenced by freebies, can have notable fiscal implications, highlighting the need for careful budgetary planning.

The empirical analysis of both hypotheses underscores a complex but revealing relationship between welfare-driven expenditures and fiscal health in Rajasthan. The findings affirm that targeted freebies expenditure in education and health have contributed positively to the

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expansion of social sector expenditure, thereby reinforcing the government's role in fostering inclusive growth. At the same time, the investigation highlights that this welfare orientation is not without cost-persistent fiscal deficits. The results suggest that while welfare measures can serve as effective instruments for social development, their long-term viability depends critically on maintaining fiscal prudence. Freebies cannot be viewed merely as short-term populist tools; their integration into the broader framework of developmental policy requires efficiency, accountability, and an alignment with sustainable revenue generation. The overall conclusion, therefore, calls for a balanced approach- that safeguards the gains of social spending while ensuring that fiscal discipline is not compromised. In doing so, the state can transform welfare from being a political expedient into a genuine catalyst for sustainable and equitable growth.

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Appendix A- Diagnostic Test of the First Hypothesis.

Diagnostic Model					
		Lin-lin	Log-log	Log-lin	Lin-log
Autocorrelation (LM Test)	F-stat	0.24	2.23	3.38	1.31
	Prob	0.79	0.16	0.08	0.31
Heteroskedasticity (Berush Pagan Godfrey)	F-stat	0.37	2.81	9.18	0.33
	Prob	0.7	0.1	0.003	0.72
Normality of Residuals (Jarque Bera)	Coefficient	0.27	0.38	0.87	0.47
	Prob	0.87	0.83	0.65	0.79

Appendix B- Diagnostic Test of the Second Hypothesis.

Diagnostic Model		
		Log-log
Autocorrelation (LM Test)	F-stat	1.08
	Prob	0.37
Heteroskedasticity (Berush Pagan Godfrey)	F-stat	1.92
	Prob	0.18
Normality of Residuals (Jarque Bera)	Coefficient	3.56
	Prob	0.17
Model Specification (Ramsey RESET Test)	F-statistic	0.93
	Prob	0.36

