



Do Free Schemes Support Substantial Economic Growth? A Critical Economic Analysis of South Indian States

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Abstract

Free and subsidised provision, from cash transfers and free bus travel to electricity, rice, and school meals, has become central to electoral competition in India's southern states. This article examines whether such schemes support substantial economic growth. Using a comparative, desk-based analysis of Andhra Pradesh, Karnataka, Kerala, Tamil Nadu, and Telangana, and drawing on Reserve Bank of India, NITI Aayog, NFHS-5, and PLFS data alongside experimental and quasi-experimental literature, it classifies schemes by growth channel: human-capital enabling, consumption-supporting, input-distorting, and purely redistributive. The analysis finds that child-focused and women-targeted schemes yield credible long-run productivity gains. Unconditional transfers and input subsidies mainly deliver welfare and political stability rather than growth, and they can crowd out capital expenditure when debt-financed. Regional growth owes more to human capital, industrial capacity, and administrative quality than to freebies as such. The article concludes design principles for fiscally sustainable, growth-compatible welfare.

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1. Introduction

Few issues in contemporary Indian public finance generate as much heat as "freebies." In July 2022 the Prime Minister publicly cautioned against a "revdi culture" in electoral politics. The Supreme Court then took up petitions seeking limits on pre-election promises of free goods, and the Reserve Bank of India (RBI) repeatedly flagged the fiscal risks of expanding subsidies (Reserve Bank of India [RBI], 2022). Defenders reply that these programmes are a legitimate expression of a welfare state, and that southern India's superior human development was built partly on them. The debate often proceeds on assertion rather than evidence.

South India is the natural laboratory for the question. Together, Andhra Pradesh, Karnataka, Kerala, Tamil Nadu, and Telangana account for roughly one-fifth of India's population but close to 30 percent of its gross domestic product (GDP), by commonly cited estimates. They also lead the country on most social indicators. They are also the states where welfare populism is most developed. Tamil Nadu pioneered the universal noon-meal scheme in the early 1980s and the distribution of consumer durables in the 2000s. Andhra Pradesh and Telangana built large farmer-income and pension systems. Karnataka's 2023 "five guarantees" are among the largest programmes of unconditional support for households in India. Kerala combines a long tradition of public provision with growing fiscal stress.

The central question is whether free schemes support *substantial economic growth*. It is deliberately distinguished from three adjacent questions. The first is whether they reduce poverty, which the evidence often affirms. The second is whether they win elections, which the political economy literature suggests they sometimes do. The third is whether they are desirable on ethical grounds, which is a normative matter outside this article's scope. Growth is understood here as a sustained increase in real output per capita and in the economy's productive capacity, operating through factor accumulation (physical and human capital, labour supply) or productivity.

The article makes three contributions. First, it proposes a typology of free schemes by their plausible growth channel, which avoids treating "freebies" as a monolith. Second, it assembles recent statistical evidence from official and survey sources for the five southern states and sets it against the micro-econometric literature. Third, it articulates conditions under which welfare spending complements growth and conditions under which it competes with it. The argument proceeds as follows. Section 2 sets out the conceptual and empirical literature. Section 3 states the hypotheses, data, and method. Section 4 describes the regional context. Section 5 maps the welfare architecture state by state. Section 6 analyses the growth channels. Section 7 discusses the political economy and fiscal constraints. Section 8 offers policy implications, Section 9 notes limitations, and Section 10 concludes.

2. Conceptual Framework and Literature Review

2.1. What Counts as A "Free Scheme"?

The term "freebies" has no legal or analytic definition. The Supreme Court, in *Subramaniam Balaji v. Government of Tamil Nadu* (2013)^[39], held that manifesto promises of free goods did not constitute a corrupt practice under electoral law, while acknowledging that such promises could shake the roots of free and fair elections, and it asked the Election Commission to frame guidelines. Public-finance economists would instead distinguish between (a) *merit goods and public goods* (education, health, nutrition, public transport), (b) *social insurance and transfers* (pensions, cash support), and (c) *private goods and input subsidies* (free electricity, free consumer durables, farm loan waivers). The fiscal literature on India has long urged that subsidies be classified as "merit" or "non-merit" depending on their externalities (Gulati & Narayanan, 2003; RBI, 2022)^[15].

This article adopts a four-fold typology based on the dominant growth channel.

1. **Human-capital-enabling schemes:** school meals, free bicycles for girls, free textbooks, subsidised health insurance, breakfast schemes.
2. **Consumption-supporting transfers:** subsidised foodgrain, social pensions, unconditional cash to women or farmers.
3. **Input and price subsidies:** free or subsidised farm electricity, water, fertiliser, loan waivers, free LPG cylinders.
4. **Mobility and time-use schemes:** free bus travel for women, which straddles consumption and labour-supply channels.

2.2. Theoretical channels

Supply-Side Channels: In the neoclassical (Solow) framework, growth arises from capital accumulation and

technological progress. Endogenous growth theories give human capital a central place. Government spending on education and health raises the stock of human capital and thereby long-run productivity. In cross-country evidence, Barro (1991)^[5] found that initial human capital, particularly schooling, was positively associated with subsequent growth, while government consumption not directed to productive investment was negatively associated. This is the benchmark intuition: composition matters more than aggregate size.

Demand-Side Channels: In Keynesian models, transfers to low-income households with high marginal propensities to consume may raise aggregate demand, with multiplier effects when there is slack. Ilzetzki, Mendoza, and Végh (2013)^[18] found that fiscal multipliers are smaller in developing countries and in high-debt economies, and are close to zero or negative where debt is high. Multipliers thus depend on the fiscal position, which matters directly for the debt-prone southern states.

Labour-Supply Channels: Transfers may relax liquidity constraints and increase productive investment by poor households, or alternatively reduce labour supply through an income effect. Banerjee, Hanna, Kreindler, and Olken (2017)^[3], reviewing several developing-country cash transfer programmes, found little evidence that transfers reduce work, contradicting the stereotype of the "lazy welfare recipient." Free transport and childcare-related schemes may expand women's labour force participation, which is low in India and constrained by social norms and safety concerns (Jayachandran, 2021)^[20].

Distortionary channels: Price subsidies change relative prices. Free farm electricity, the clearest example, encourages over-extraction of groundwater and discourages the electricity-distribution reform that industry and agriculture need (Shah, 2009; Badiani-Magnusson & Jessoe, 2018)^[37, 2].

Fiscal channels: The decisive question is financing. If free schemes are financed by tax revenue and displace low-return spending, the growth effect may be benign. If financed by borrowing or by cutting capital expenditure, the crowding-out of public investment can erode growth. The FRBM Review Committee proposed a debt-to-GDP anchor of 20 percent for the states (Government of India, 2017), and the Fifteenth Finance Commission (Finance Commission of India, 2021)^[11] recommended a path of fiscal consolidation, but actual state debt ratios have remained well above that anchor.

2.3. Empirical Evidence on Transfers and Subsidies

Cash transfers: A rigorous experimental literature finds that unconditional cash transfers raise consumption, assets, and psychological wellbeing, without increasing spending on temptation goods (Evans & Popova, 2017; Haushofer & Shapiro, 2016)^[9, 16]. Reviews of cash transfers find consistent positive effects on poverty and, for conditional transfers, on schooling and health utilisation (Bastagli *et al.*, 2016). Banerjee, Niehaus, and Suri (2019)^[6, 4] caution, however, that evidence on *macro* growth effects and on the fiscal sustainability of large universal basic income-type schemes in developing countries is still thin, and that financing is the central unsolved issue.

Food subsidies: Jensen and Miller (2011)^[21] found, in a China experiment, that staple price subsidies did not reliably improve nutrition and in some cases reduced calorie intake among the very poor. In India, studies of the revival of the public distribution system (PDS) find meaningful poverty

reduction where the system works well, notably in Tamil Nadu (Khera, 2011; Himanshu & Sen, 2013) ^[25, 17]. Kotwal, Murugkar, and Ramaswami (2011) ^[26] reviewed the case for retaining universal PDS, noting its political and administrative durability in southern states.

School meals and education schemes: Afridi (2010) ^[1] found that India's mandated school meal programme improved child nutrition, and Chakraborty and Jayaraman (2019) ^[7] found that it improved learning achievement. Muralidharan and Prakash (2017) ^[30], studying Bihar's bicycle programme, found large increases in girls' secondary enrolment. These are schemes with credible long-run productivity effects.

Employment guarantee and state capacity: Muralidharan, Niehaus, and Sukhtankar (2016) ^[28] showed that biometric smart cards in Andhra Pradesh's welfare payments reduced leakage and increased payment speed. Their later study (Muralidharan, Niehaus, & Sukhtankar, 2023) ^[29] found that improving the implementation of the employment guarantee scheme raised rural incomes substantially, including for non-participants through general-equilibrium effects on wages. The implication is that *delivery quality* matters as much as scheme design.

Public spending and rural growth: Fan, Hazell, and Thorat (2000) ^[10], in a classic study of Indian states, found that government spending on rural roads, agricultural research, and education yielded the largest effects on growth and poverty reduction, whereas input subsidies such as fertiliser and power had comparatively small returns per rupee. This remains the clearest evidence that not all public rupees are equal.

2.4. Political Economy

Why do governments choose transfers over public goods? Keefer and Vlaicu (2008) ^[23] and Keefer and Khemani (2005) ^[22] argued that where voters cannot credibly evaluate politicians' promises about public goods, politicians turn to clientelist or targeted private benefits. Khemani (2015) ^[24] showed that political incentives lead to under-investment in pro-poor public services where voters respond to visible, immediate benefits. Stokes (2005) ^[38] emphasised the perverse accountability that arises when parties monitor vote-buying. By contrast, Manacorda, Miguel, and Vigorito (2011) ^[27] found that a large targeted transfer in Uruguay raised political support for the incumbent, which shows that the electoral returns to transfers are real and contribute to their spread. Southern India's regional-party competition, with two or three dominant formations alternating in power, has given rise to something like a "welfare auction" in which each side bids for the median and poor voter (Rao & Singh, 2005) ^[32]. Whether that auction promotes human development or merely fiscal stress depends on the composition of the bids.

3. Research Questions, Hypotheses, Data, and Method

3.1. Research Questions

RQ1. Which types of free schemes in South India plausibly raise long-run growth, and through which channels?

RQ2. Is there evidence that the scale of such schemes has compromised the fiscal space for growth-enhancing public investment?

RQ3. What conditions determine whether welfare spending is complementary to, or competitive with, growth?

3.2. Hypotheses

H1. Schemes that build human capital (nutrition, education, health) have a stronger and more durable growth effect than unconditional consumption subsidies.

H2. Input subsidies, especially free farm power, have low or negative growth returns per rupee relative to capital expenditure.

H3. The growth effect of any scheme is conditional on fiscal sustainability and administrative capacity; high-debt states face a tighter trade-off.

3.3. Data and Method

The study adopts a qualitative-quantitative comparative design based on secondary data. Sources include RBI's annual studies of state budgets and *Handbook of Statistics on Indian States* (RBI, 2024a, 2024b); the National Multidimensional Poverty Index review (NITI Aayog, 2023) ^[31]; the National Family Health Survey (NFHS-5) (International Institute for Population Sciences [IIPS] & ICF, 2021); the Periodic Labour Force Survey (PLFS) published by the Ministry of Statistics and Programme Implementation; and state budget documents. These are combined with the micro-econometric literature reviewed above. The method is a *channel analysis*: for each category in the typology, the article assesses the plausible mechanism, the strength of causal evidence, and the fiscal cost.

An important caveat applies. State-level data cannot isolate the causal effect of free schemes on growth, because schemes are endogenous to development levels and political conditions, and many confounders (industrial policy, remittances, geography, historical investments) are at work. The article therefore does not claim to estimate a causal coefficient. It triangulates descriptive regional evidence with credible micro-evidence and judges the plausibility of aggregate effects. Figures reported are approximate and rounded; they should be verified against the primary sources before citation in formal submissions.

4. The Southern Context: Growth, Human Development, and Fiscal Position

4.1. Economic performance

The five southern states are among India's richest in per capita terms. Approximate per capita net state domestic product (NSDP) at current prices in 2023–24 was in the range of ₹3.5 lakh for Telangana, ₹3.3 lakh for Karnataka, and ₹3.1–3.2 lakh for Tamil Nadu. Kerala and Andhra Pradesh were lower, at roughly ₹2.4–2.8 lakh, compared with a national per capita income of about ₹1.8–1.9 lakh (RBI, 2024b). Growth rates have been strong and volatile. Tamil Nadu's government reported real gross state domestic product (GSDP) growth of roughly 8 percent in 2023–24, and a figure close to 9.7 percent for 2024–25, which was among the highest in the country. Karnataka and Telangana, anchored by information technology and services, have grown at or above the national rate in most recent years.

The composition of growth is notable. Karnataka (Bengaluru) and Telangana (Hyderabad) are anchored by IT, IT-enabled services, and, increasingly, global capability centres. Tamil Nadu is India's leading manufacturing state by factory employment, with strong automobile, electronics, and textile clusters. Andhra Pradesh has a large agriculture and

aquaculture base and is attempting to attract industrial investment. Kerala relies heavily on remittances and services, with limited manufacturing.

4.2. Human Development

Southern states lead India's social indicators, as Table 1 shows.

Table 1: Selected social indicators, South Indian states and India (approximate)

State	Multidimensional poverty headcount, 2019–21 (%)	Child stunting, NFHS-5 (%)	Total fertility rate, NFHS-5
Kerala	0.55	23.4	1.8
Tamil Nadu	2.20	25.0	1.8
Telangana	5.88	33.1	1.8
Andhra Pradesh	6.06	31.2	1.7
Karnataka	7.58	35.4	1.7
India	14.96	35.5	2.0

Note. Sources: NITI Aayog (2023) ^[31]; IIPS & ICF (2021). Figures rounded.

Kerala and Tamil Nadu record among the lowest multidimensional poverty rates in the country, and all five states have fertility rates below replacement level. The pattern is consistent with the "Kerala model" literature, in which public action on education, health, and women's status produced outcomes far above what income alone would predict (Drèze & Sen, 2013; Franke & Chasin, 1994) ^[8, 12]. Importantly, however, the stunting figures show that human development is uneven. Karnataka's stunting rate (about 35 percent) is close to the national average despite its high income, which suggests that high income does not automatically translate into nutrition outcomes, and that scheme design and delivery matter.

4.3. Fiscal Position

Fiscal stress is emerging across the region. RBI's annual studies of state budgets report that aggregate state debt-to-GDP ratios have fallen from their pandemic-era peak but remain around the high-20-percent range, well above the 20 percent anchor proposed by the FRBM Review Committee (RBI, 2024a). Within the region, Kerala has persistently high liabilities relative to GSDP, in the range of the mid-30-percent level, and has had recurrent disputes with the Union government over borrowing limits. Andhra Pradesh and Telangana have large liabilities once off-budget borrowing through public corporations is counted. Telangana's government white paper of December 2023 reported total liabilities of about ₹6.7 lakh crore including such borrowings (Government of Telangana, 2023), and Andhra Pradesh's incoming government issued similar white papers in 2024 highlighting stress. Karnataka and Tamil Nadu have lower but rising debt ratios, with Tamil Nadu in particular facing high committed expenditure on salaries, pensions, and interest. The RBI (2022) has specifically identified subsidies and "freebies" as a source of rigidity, noting that the shift of subsidies from explicit budget heads to implicit ones (for example, electricity-distribution company losses and guarantees) obscures true fiscal cost. This transparency problem is central to the southern debate.

5. The Welfare Architecture: A State-by-State Map

5.1. Tamil Nadu: The Long-Standing Welfare State

Tamil Nadu is the pioneer. The Noon Meal Scheme, expanded in the early 1980s, became the template for India's national midday meal programme. The state also runs an almost universal PDS, which sets it apart from most states where targeting remains imperfect (Khera, 2011; Kotwal *et al.*, 2011) ^[25, 26]. Since 2006 it has distributed televisions, mixer-grinders, and laptops and has operated subsidised "Amma" canteens, and more recently it introduced a Chief

Minister's Breakfast Scheme for primary-school children (2022), the Pudhumai Penn scheme giving ₹1,000 monthly to girls from government schools who pursue higher education, and the Kalaigarnar Magalir Urimai Thogai, giving ₹1,000 monthly to eligible women heads of families, reaching over one crore beneficiaries since September 2023. The latter involves recurring expenditure of the order of ₹13,000 crore a year, roughly 0.4 percent of GSDP.

The state's higher education gross enrolment ratio, at roughly 47 percent in recent All India Survey on Higher Education data, is among the highest in India and well above the national figure of around 28 percent. Any claim that welfare is growth-hostile must contend with Tamil Nadu: it combines extensive welfare provision with top-tier manufacturing growth. But Tamil Nadu also illustrates the limits of the argument, since its industrial advantages (ports, skilled labour, early industrial policy, a large engineering-college system) pre-date the recent transfers.

5.2. Karnataka: The Five Guarantees

After the 2023 election, Karnataka implemented five guarantees. Gruha Jyothi provides up to 200 units of free household electricity. Gruha Lakshmi provides ₹2,000 monthly to the woman head of household. Anna Bhagya provides 10 kg of foodgrain per person, partly converted into cash. Shakti offers free travel for women in state-run buses, and Yuva Nidhi provides unemployment support for recent graduates and diploma holders. The state budget for 2024–25 allocated roughly ₹52,000 crore to the guarantees, about one-seventh of a total outlay of roughly ₹3.7 lakh crore, and on the order of 1.8–2 percent of GSDP.

Karnataka is the clearest current test case of whether a fast-growing, high-income state can carry a large unconditional welfare programme without damaging its investment capacity. Early budgets suggest that the burden has been accommodated partly through higher borrowing and reduced room for new capital works. Opposition critics and some analysts note that the capital outlay share has come under pressure, though the state still maintains its fiscal deficit within the 3 percent FRBM limit, a point its government stresses.

5.3. Telangana: Farmer Income Support and The Shift to New Guarantees

Telangana pioneered the *Rythu Bandhu* investment-support scheme, giving farmers a fixed per-acre payment each cropping season, independent of crop choice. Introduced in 2018 at ₹8,000 per acre per year and later raised to ₹10,000, it cost roughly ₹14,000–15,000 crore annually. The state also runs aasara pensions, the Kalyana Lakshmi marriage-

assistance scheme, and large irrigation and drinking-water projects financed substantially through borrowing from public corporations (Government of Telangana, 2023) ^[11]. After the change of government in December 2023, the new administration announced a set of "six guarantees," including free bus travel for women (Mahalakshmi), subsidised LPG cylinders, free electricity up to 200 units, and increased per-acre farm support under a revised scheme. Telangana's experience is an instructive case of *composition*. Large capital-intensive irrigation investment drew criticism over cost and off-budget debt, and the successor guarantees add recurring commitments.

5.4. Andhra Pradesh: Large Cash and Pension Commitments

Andhra Pradesh under the 2019–24 administration ran a package called the *Navaratnalu*, including mother-linked school support (Amma Vodi), farmer assistance (Rythu Bharosa), fee reimbursements, health insurance (Aarogyasri), and enhanced social pensions. After the 2024 election, the new coalition government promised an expanded set of commitments, popularly called the "Super Six," including a larger pension, financial assistance to mothers of school-going children, monthly assistance for women, support for farmers, free gas cylinders, and free bus travel for women, introduced in August 2025. The state is simultaneously trying to attract large-scale investment and to finance a new capital-city project, so its commitments compete directly with its growth strategy.

5.5. Kerala: Social Security Under Fiscal Strain

Kerala has an extensive welfare system, including social security pensions, a free school-meal programme, Kudumbashree (a women's self-help network that doubles as a delivery platform), and universal public health infrastructure. The fiscal challenge is acute: high committed expenditure on pensions and salaries, delayed welfare pension payments in recent years, and a limited tax base. Kerala is thus the cautionary tale of high human development with weak growth dynamics in manufacturing, and of welfare commitments that outrun revenue growth.

6. Result Analysis: The Growth Channels

6.1. Human-Capital-Enabling Schemes: The Strongest Case

The micro-evidence is clearest for school feeding, girls' education incentives, and health insurance. Midday meals improve nutrition and learning (Afridi, 2010; Chakraborty & Jayaraman, 2019) ^[1, 7]. Bicycle programmes raise girls' secondary enrolment (Muralidharan & Prakash, 2017) ^[30]. The returns to schooling for girls are particularly large because of intergenerational effects on health and education (Schultz, 2002) ^[36]. Tamil Nadu's school-meal and breakfast programmes, Pudhumai Penn, and Kerala's school-feeding system belong to this category. The regional evidence is consistent with these micro-findings. Tamil Nadu and Kerala show low stunting, low poverty, and high enrolment, and Tamil Nadu's manufacturing growth draws on a skilled female and male workforce produced by a mature education system. The sequence is plausible, with human development preceding and enabling industrial growth, although reverse causation (income allowing more schooling) cannot be excluded.

These schemes also carry a relatively low fiscal burden. Spending on school meals and breakfast amounts to a small fraction of GSDP. In growth-accounting terms they are cheap investments with decades-long payoffs.

H1 is therefore supported: the growth case for human-capital schemes is substantially stronger than for other categories, though the magnitude is hard to quantify and the gains accrue with long lags. A caution is that provision is not the same as quality. Karnataka's high stunting rate despite high income indicates that nutrition schemes need effective delivery, including working anganwadi centres, dietary diversity, and sanitation. The growth return depends on outcomes rather than outlays.

6.2. Cash Transfers and Consumption Support: Welfare Gains, Ambiguous Growth Effects

For unconditional cash transfers to women and farmers, the evidence supports poverty reduction and consumption smoothing, with limited evidence of labour withdrawal (Banerjee *et al.*, 2017; Haushofer & Shapiro, 2016) ^[3, 16]. The growth effect then depends on what households do with the money. Small, regular transfers can finance children's schooling and nutrition, small business inputs, or debt servicing, all of which have positive but modest productive effects. Where there is slack demand, multiplier effects may raise local output. At the state level, however, three considerations limit the plausible aggregate growth effect. First, the sums are modest relative to GSDP at the household level. A transfer of ₹1,000 to ₹2,000 per month is meaningful for a poor household but small as a source of aggregate investment. Second, the fiscal multiplier depends on financing. Ilzetzki *et al.* (2013) ^[18] imply a low multiplier in high-debt settings, and several southern states fit that description. Third, transfers financed by borrowing add to interest burdens, which already consume a large share of revenue receipts.

Women-directed transfers have an additional advantage: evidence from many contexts suggests that resources in women's hands are more likely to be spent on children's health and education (Banerjee *et al.*, 2017) ^[3]. If so, a partial human-capital effect is embedded in them. But without conditionality or complementary services, this channel cannot be assumed. Food subsidies deserve separate mention. Tamil Nadu's universal PDS is credited with real poverty reduction and strong political durability (Himanshu & Sen, 2013; Khera, 2011) ^[17, 25]. Yet the existence of persistent undernutrition elsewhere in the region suggests that grain alone does not guarantee nutritional outcomes, in line with the ambiguous nutrition effects reported by Jensen and Miller (2011) ^[21]. Food subsidies are thus best understood as social protection with possible, but not assured, growth spillovers.

6.3. Free Bus Travel and Women's Labour Supply

Free bus travel for women, now in place in Karnataka, Telangana, and Andhra Pradesh (and variants in Tamil Nadu, which pioneered it for women in town buses in 2021), is an interesting hybrid. Its direct fiscal cost is the revenue forgone by state transport corporations, which must be compensated by the budget. Its potential growth effect operates through women's labour force participation: lower transport costs and perceived safety constraints may allow women to take up jobs, training, or education further from home. India's female labour force participation, though rising (the PLFS reported

a rate of around 41.7 percent for women aged 15 and above in 2023–24, up considerably from the late 2010s), remains low by international standards, and mobility constraints are well documented (Jayachandran, 2021)^[20].

The potential is real, but rigorous evidence for the Indian state-level schemes is still thin. Early reports show sharp increases in women's ridership. Whether this reflects new work and study trips or merely substitution from other transport is not yet established. A further risk is that financial stress on transport corporations leads to deteriorating bus fleets and service, undermining the very mobility it seeks to promote. The growth case is plausible but unproven, and requires evaluation through labour-market data.

6.4. Input Subsidies: Free Power and Farm Support

The weakest growth case belongs to input subsidies, especially free or highly subsidised electricity for agriculture and, increasingly, for households. The Indian evidence is consistent: free farm power encourages groundwater over-extraction, weakens incentives for efficient irrigation, and drains the finances of electricity-distribution companies, which crowds out investment in the grid (Shah, 2009; Badiani-Magnusson & Jessoe, 2018)^[37, 2]. Fan *et al.* (2000)^[10] found much higher growth and poverty returns to rural roads, agricultural research, and education than to power and fertiliser subsidies. Southern India, with severe groundwater stress in parts of Karnataka, Andhra Pradesh, and Telangana, is particularly exposed.

Per-acre farmer income-support schemes like Rythu Bandhu are conceptually better than price subsidies because the payment is decoupled from input use or output, and so does not distort cropping. Their weakness is regressive incidence: because payment is proportional to land, large landholders receive more and tenant farmers, who are among the poorest cultivators, may receive nothing. The evidence on productivity effects is limited and mixed. They provide liquidity at sowing time, which is useful, but they are better viewed as income support than as a growth instrument. Loan waivers, practised intermittently across the region, impair credit discipline and harm banks' balance sheets without durable gains in farm productivity. On balance, H2 is supported in directional terms: input subsidies deliver low growth return per rupee, though their precise cost-benefit ratio at state level has not been estimated and their political demand is strong.

6.5. Durable Consumer Goods and "Pure" Freebies

Distribution of televisions, mixer-grinders, laptops, and similar goods has the weakest rationale. They deliver a one-time consumption benefit, have no clear human-capital or productivity channel (with some exceptions, such as laptops for students), and are open to criticism of poor targeting and procurement leakage. They may stimulate local manufacturers, since Tamil Nadu has sourced some appliances from domestic suppliers, but any such stimulus is small and could be achieved more effectively by other means. Their continued presence is best explained by political economy rather than economic rationale.

6.6. The Fiscal Crowding-Out Problem

The core macro-level concern is not that welfare spending is inherently anti-growth but that recurring revenue expenditure commitments squeeze capital expenditure. India's states collectively account for a larger share of public capital

formation than the Union, and public investment in roads, irrigation, power, urban infrastructure, and schools is a key complement to private investment. If guarantee-type commitments rise as a share of the budget and are financed by borrowing at the margin, one of three outcomes follows: higher deficits, lower capex, or higher taxes. Recent state budgets illustrate the tension. Karnataka's guarantees absorb about 14 percent of its budget. Telangana's and Andhra Pradesh's new commitments add to already high liabilities. Kerala's committed expenditure leaves limited fiscal space. RBI (2024a) notes that although states have broadly met their deficit targets and have been raising capital outlay in recent years, helped by the Union government's interest-free capex loans, the quality of expenditure and the build-up of contingent liabilities remain concerns.

A fair reading is that the *current* fiscal position of the southern states is not in crisis. Their revenue base is comparatively strong and their growth is high, which supports the claim of those who say welfare is affordable. The risk is dynamic. Commitments that are politically hard to reverse grow with inflation, coverage, and electoral escalation, while revenues depend on growth and on Union transfers determined through the Finance Commission formula. Southern states have also complained that their better demographic performance reduces their share of devolved resources, which makes their fiscal space even less certain. H3 is supported: the growth-compatibility of welfare spending depends on the fiscal environment, and the margin for error is smaller in high-debt states such as Kerala, Andhra Pradesh, and Telangana than in Karnataka and Tamil Nadu.

6.7. State Capacity and Delivery

A final channel deserves emphasis: administrative capacity. Muralidharan *et al.* (2016, 2023)^[28, 30] show that identical schemes yield very different outcomes depending on delivery quality. Andhra Pradesh's smart-card reforms cut leakage and delays, and improved implementation of the employment guarantee scheme raised rural incomes and wages. Southern states generally have more capable administrations, better-functioning PDS, and higher digital-payment penetration than northern states. This may be a reason why welfare spending in the south yields visible human-development returns. The same schemes transplanted to low-capacity states may produce far less, so the southern experience is not simply generalisable.

7. Discussion

7.1. Is Welfare A Cause of Southern Growth?

The evidence does not support the strong claim that free schemes *caused* southern prosperity, nor the opposite claim that they are inherently a drag. A more defensible reading is as follows. First, the foundation of southern development was the long-run accumulation of human capital through public investment in schools, health, and women's empowerment, in which universal or near-universal programmes played a role (Drèze & Sen, 2013)^[8]. Second, industrial and services growth in Karnataka, Tamil Nadu, and Telangana owes much to agglomeration, skills, infrastructure, and policy stability, with welfare as a complement, in particular by providing a healthy, educated workforce and social peace. Third, the *recent* wave of unconditional transfers and household subsidies is too new, and too confounded with post-pandemic recovery and other shocks, to have yielded identifiable growth effects.

7.2. A Typology of Growth Effects

Table 2 summarises the assessment.

Table 2: Growth-channel assessment of scheme types

Scheme type	Examples	Main growth channel	Strength of evidence	Fiscal pressure	Overall growth plausibility
Human-capital enabling	School meals, breakfast, girls' education support, health insurance	Productivity via nutrition, schooling, health	Strong (micro-evidence)	Low	High, long-lagged
Unconditional cash	Women-headed household transfers, social pensions	Liquidity, consumption, investment in children	Moderate	Medium–High	Modest; welfare-dominant
Food subsidy	PDS, free grain	Poverty reduction, nutrition (uncertain)	Moderate	Medium	Modest
Mobility	Free bus travel for women	Labour supply, education access	Weak (emerging)	Medium	Plausible, unproven
Input subsidy	Free farm power, loan waivers	Output (short term) but resource distortion	Moderate–strong against	High	Low or negative
Durable goods	TVs, grinders, laptops	One-time consumption	Weak	Low–Medium	Very low

Note. Source: author's synthesis of the literature and state evidence reviewed above.

7.3. The political economy of persistence

Why do these schemes persist and escalate irrespective of growth effects? The political economy literature offers an answer. Where voters find it hard to verify politicians' promises about public goods, targeted and immediately visible benefits are a more credible electoral currency (Keefer & Vlaicu, 2008; Khemani, 2015) ^[23, 24]. Transfers can in fact earn electoral support (Manacorda *et al.*, 2011) ^[27]. Competitive regional-party systems intensify the dynamic, since each party must match the other's last offer. In such an equilibrium, no individual party can unilaterally reduce welfare promises without electoral risk, even if all would prefer a more growth-oriented budget.

At the same time, the other side of the argument deserves weight. India's poor are not served by a state that withdraws support in the name of growth. Welfare spending can be justified as a matter of right and insurance. In a context where roughly 15 percent of Indians remain multidimensionally poor (NITI Aayog, 2023) ^[31] and informal employment is predominant, social protection is both ethically and politically important. The relevant policy question is not "welfare or growth?" but "which welfare, financed how, and delivered how?" The "revdi" framing obscures this distinction by lumping together nutrition programmes and televisions.

7.4. Federalism and Fiscal Rules

Southern states also face a federal context in which borrowing limits are set by the Union under Article 293 and the Finance Commission framework, and in which off-budget borrowing is increasingly restricted. Kerala's dispute with the Union over borrowing limits shows how fiscal federalism shapes the real options available. Southern states argue that devolution formulas penalise them for demographic success. This matters for the analysis because the sustainability of welfare depends on the revenue side as much as the expenditure side. Calls for welfare restraint that ignore the revenue constraint place the burden of adjustment on the states with the least flexibility.

8. Policy Implications

The analysis suggests six design principles for growth-compatible welfare.

1. **Prioritise the human-capital core.** Protect and deepen school feeding, early-childhood nutrition, girls' education, and public health, which have the strongest return per rupee. Link these to learning outcomes rather than only to enrolment or outlays.
2. **Condition or complement transfers where possible.** Unconditional transfers are defensible as social protection, but pairing them with services (for example, schooling, health check-ups, skills training, or access to credit) can raise their productive impact. Women-directed transfers should be accompanied by financial-inclusion measures.
3. **Rationalise input subsidies.** Move gradually from free or highly subsidised farm power toward metered, targeted support, direct benefit transfers decoupled from consumption, and investment in efficient irrigation and distribution reform. Groundwater-stressed districts should be prioritised.
4. **Ring-fence capital expenditure.** State fiscal responsibility legislation could include a floor for capital outlay as a share of GSDP or total expenditure, so that revenue commitments do not systematically crowd out infrastructure.
5. **Improve transparency.** Compensation to transport and electricity companies for subsidised services should be budgeted explicitly. Off-budget liabilities and contingent guarantees should be reported with state accounts, as the RBI (2022) has advised, so that voters can see the real cost.
6. **Evaluate rigorously.** Southern states should build impact evaluation into new schemes, using phased rollouts, administrative data, and labour-market surveys. The free-bus and women's transfer schemes provide an opportunity for credible assessment of labour supply effects. Evaluation capacity, as seen in earlier Andhra Pradesh experiments, is a comparative advantage of the region.

At the national level, a Finance Commission-based or Election Commission-based framework might require parties to disclose the cost and financing of major promises. The Supreme Court's 2013 observations in *Subramaniam Balaji* pointed in this direction, but disclosure norms remain weak.

9. Limitations

Several limitations should be acknowledged. First, the analysis is based on secondary and aggregate data, and cannot identify causal effects of state-level schemes on GSDP growth; schemes are endogenous to political and economic conditions. Second, several of the most important programmes (Karnataka's guarantees, Telangana's and Andhra Pradesh's new commitments, free bus travel) are too recent for their effects to appear in available data, which at best extend to 2023–24 or 2024–25 in preliminary form. Third, fiscal figures are drawn from budget estimates, white papers, and press-reported allocations, which may differ from audited actuals, and off-budget liabilities are measured inconsistently across states. Fourth, the typology simplifies schemes that have multiple objectives; for example, a women's transfer is simultaneously a poverty, gender-empowerment, and consumption instrument. Fifth, the study does not model general-equilibrium effects or the counterfactual use of the same funds. Future research could use synthetic control methods, district-level panel data, and household surveys to evaluate specific programmes.

10. Conclusion

The question "Do free schemes support substantial economic growth?" has no single answer, because "free schemes" is not a single thing. The southern Indian experience suggests a differentiated verdict. Schemes that build human capital, namely nutrition, schooling, girls' education, and health, are the strongest candidates for supporting long-run growth, and they were central to the region's development model. Unconditional cash transfers and food subsidies deliver real welfare and stability gains but have modest, ambiguous growth effects that depend on how they are used and financed. Input subsidies such as free farm power and loan waivers have the weakest growth credentials, imposing environmental and fiscal costs, and durable-goods giveaways are hard to justify on growth grounds at all. Free bus travel for women is a promising but as yet unproven instrument for raising female labour participation.

At the aggregate level, the growth of the southern states owes more to human capital, industrial and services clusters, institutional capacity, and policy continuity than to freebies as such. The principal risk is not that welfare spending per se retards growth, but that an electoral dynamic of escalating, recurring, hard-to-reverse commitments gradually erodes the fiscal space for capital expenditure, particularly in higher-debt states and in a federal setting where revenue flexibility is limited. The sensible conclusion for policy and scholarship is therefore neither a blanket condemnation nor a blanket defence. The distinction that matters is the one between spending that expands people's capabilities and the economy's productive capacity, and spending that merely transfers resources without enlarging either. Southern India has historically been strongest where it did the former. Its challenge is to preserve the social-protection achievements that distinguish it, while insulating productive public investment and fiscal credibility from the pressures of competitive populism.

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