

The AAP government's free power programme is good politics, better economics

Aam Aadmi Party (AAP) national convenor Arvind Kejriwal's big election promise in the upcoming elections in Punjab, Goa, Uttarakhand, and Uttar Pradesh is 300 units of free electricity along with uninterrupted electricity supply. While free electricity may be a popular election plank, it is often vilified as a "freebie". However, the free power programme has a quantifiable impact on economic growth.

The benefits of electricity on human development are known. When tasks such as hand washing clothes and carrying water from distances are simplified using appliances, people are freed up to do more productive work. By providing free electricity up to 200 units, the AAP has enabled people to leverage these benefits, without worrying about the costs.

In Delhi, barring the summer, the free power subsidy is delivered to more than 73% of all households in the city. The subsidy is as close as it gets to a direct benefit transfer (DBT) to low-income households. It is also more efficient than a traditional DBT programme, because, for Delhi, with a transient population, the administrative cost of identifying beneficiaries is likely to be high.

The cash transfer nature of the programme can also have short-term benefits for the local economy. The household savings on power are likely spent in local markets. In the Covid-19 era, when governments are struggling to stimulate demand, and when neighbourhood markets are struggling to attract customers, such a broad-based welfare measure can prove to be a fillip for the local economy.

Enhanced access to power supply also has a quantifiable effect on economic growth. A 2020 UC Berkeley study showed a strong correlation between per capita electricity consumption and per capita Gross Domestic Product (GDP). In India, a 2018 OPEC study concluded that a 1% increase in electricity consumption leads to a huge 0.77% increase in economic growth in the long-term.

What this reveals is that electrification is not enough to experience the transformative power of electricity on the economy. The State will have to incentivise consumers to use electricity to fulfil their basic needs. The AAP's free power subsidy does exactly that. Delhi's power consumption increased sub-

stantially over the past few years, in part due to the low tariffs and subsidies. Its peak demand in the summer of 2021 touched a record high of 7,400 MW. Between 2015-16 and 2020-21, Delhi's GDP grew at 7.7%, a rate that defied India's economic slowdown in the same period. The effect of increased electricity consumption on productivity can explain the state's impressive growth trajectory.

However, the idea is not to encourage consumers to engage in wasteful use of energy. Since the AAP government demands a full price for use beyond 200 units, the programme nudges households to self-regulate consumption.

Increasing coal-based power consumption is also not optimal. Technological efficiency and the transition to renewable energy production will ensure that increasing power production does not adversely impact the environment. Delhi's power distribution companies (discoms) too have recently cancelled power purchase agreements with six coal-based power plants and replaced them with cheaper, greener sources of power.

Free electricity can also help turn around the power sector. Critics often allege that subsidies weaken the financial health of discoms. In contrast, Delhi's experience shows that power subsidies can improve the health of the power sector. As Kejriwal once wrote, cheaper electricity incentivised consumers in Delhi to sign up for legal power connections (up 20% from 2014 to 2019), which led to a sharp decline in transmission and connection losses (down from 17% in 2013 to 8% in 2019).

Since the government pays the discoms for power consumption, discoms are guaranteed an assured cash flow from the government. Discoms have become willing partners with the government in upgrading the city's power distribution infrastructure. These investments have led to Delhi experiencing a more consistent power supply in recent years.

Good politics doesn't always make for good economics. The free power programme breaks that mould.



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