

UPA-2 and Welfare Schemes

C.P. Chandrasekhar and Jayati Ghosh

A perception has been gaining ground that the [UPA](#) coalition suffered politically because of its commitment to welfare schemes and “handouts” to the poor rather than economic growth. The murmurs began during the election campaign – fed by the BJP’s strident denunciation – and have gained ground especially since the UPA’s and Congress Party’s comprehensive electoral defeat nationally.

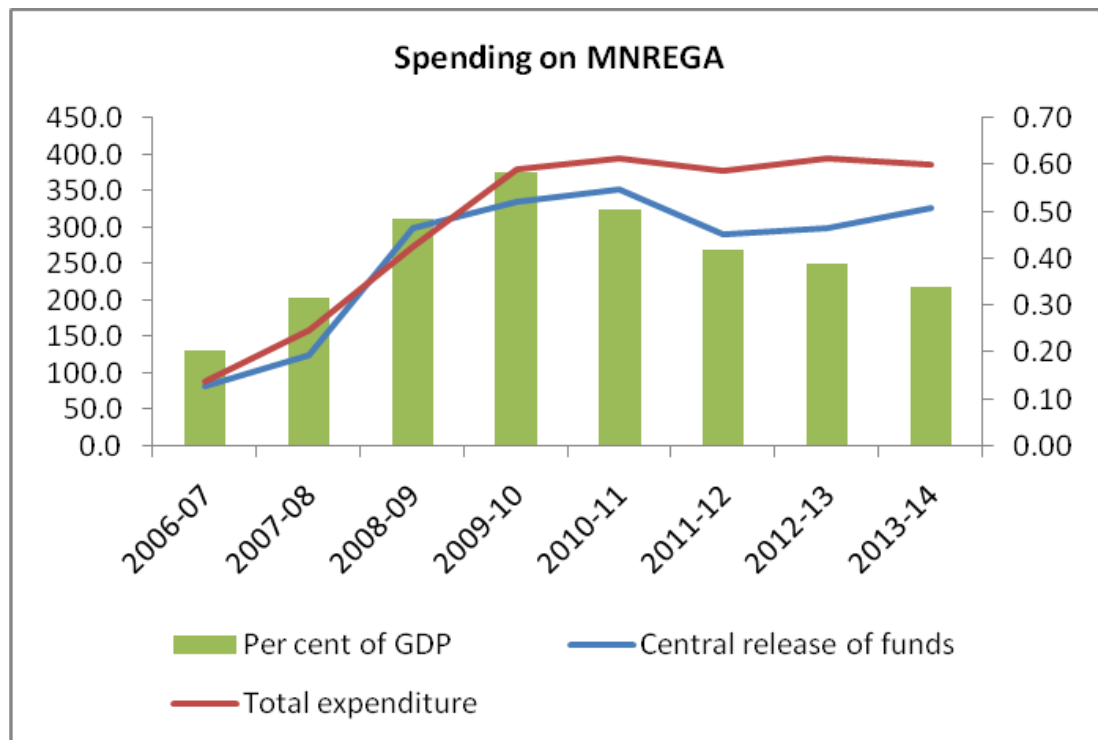
The argument goes something like this. The past five years of UPA-2 were years of “[policy paralysis](#)” in which economic growth slowed down because projects were stalled by environmental and other hurdles and slow clearances; and no new “reforms” were undertaken such as deregulating whatever little is left of formal employment in the organised sector. Instead the government frittered away time and resources on “populist” schemes that were corrupt and wasteful, which the country cannot afford, and which anyway the people do not really want. This argument, in various forms, is being repeated so often that once again people assume that it must be true.

In fact it is wrong on practically all counts. To begin with, while the elections do indeed reveal the extent of public dissatisfaction with the UPA, only one-fifth of the electorate actually voted for the BJP, and many of them did so because of effective communal polarisation in the Hindi heartland. The slower growth of the second UPA tenure was related not only to effects of the global economic crisis but equally the result of the mess in the infrastructure sector, with massively leveraged investments not bearing sufficient fruit for private sector interest to be retained and a looming crisis of bad debt especially for power and aviation loans of public sector banks.

Most of all, the argument that UPA-2 wasted the country’s resources on “populist” schemes is both conceptually flawed and empirically unjustified. It is analytically misconceived because it does not recognize the crucial role played by social spending on countercyclical consumption stabilizing, as well as on ensuring domestic demand and positive multiplier effects on economic activity, or the impact on future productivity because of a better fed and healthier population.

But it is also empirically wrong: UPA-2 did not really spend on these important schemes. In fact, it can be forcibly argued that the [Congress](#) and its allies would have been much better off if the government had actually put its money where its mouth was. As it happens, the UPA parties barely trumpeted any of these measures in their electoral campaigns, whether because of a lack of conviction in them or because of the guilty feeling that they had not lived up to their own promises.

Chart 1: Spending on MNREGA declined in real terms and as share of GDP

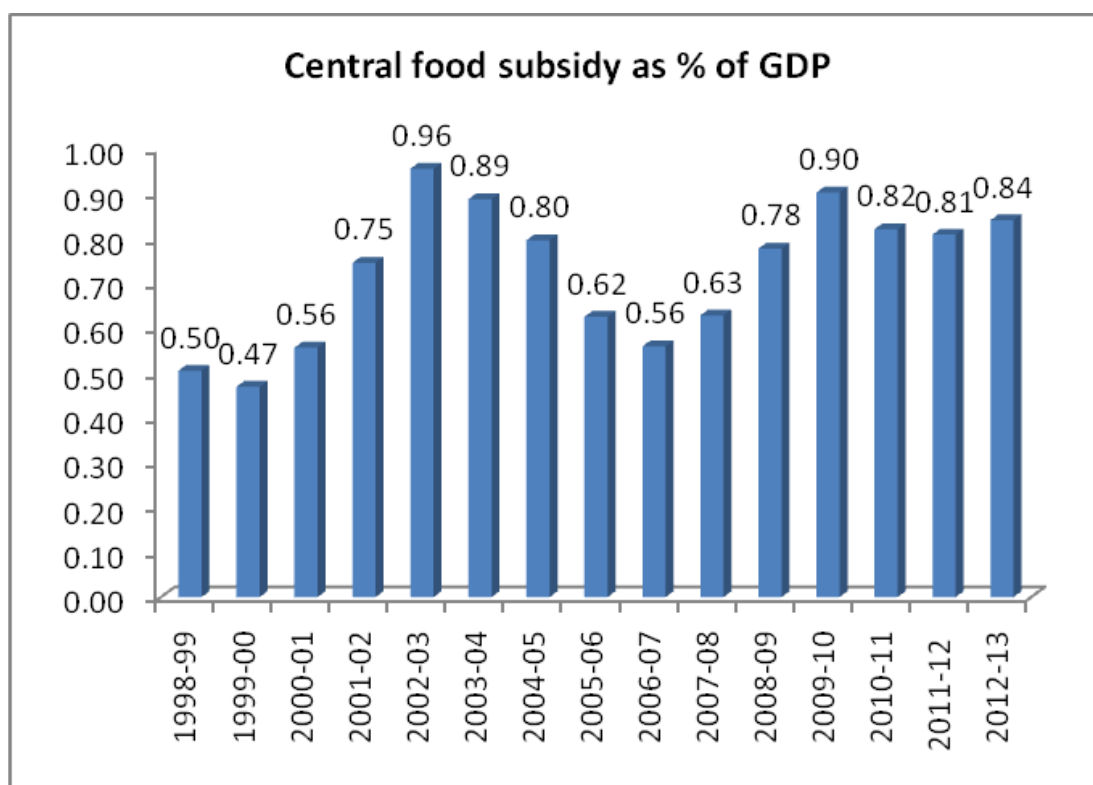


Take the [MNREGA](#), the employment guarantee programme that has become the favourite whipping post of the new establishment. As Chart 1 indicates, 2009-10 was the peak year of implementation of this programme – and even at this peak it cost less than 0.6 per cent of GDP. Since then, spending on this programme has stagnated in nominal terms, which means a decline in real or constant price terms. And even that was only because some state governments stepped up their own spending on this, as the central release of funds actually declined slightly. By last year, spending on this amounted to only around one-third of one per cent of GDP.

And this paltry amount is being cited as “too expensive” and “unaffordable” for the economy, even though it provided some much-needed jobs at very basic wages to the poorest rural workers. Just as the increase in this programme’s spread under UPA-1 was a factor in the electoral victory of 2009, so it is likely that the poor showing under UPA-2 added to public unhappiness with the government. It is worth noting that in states in which the employment programme continued to be implemented with some seriousness and efficiency (such as Tamil Nadu and Tripura) the election resulted in a tremendous vote of confidence for the parties running those state governments.

The food subsidy is also commonly cited as an example of wasteful expenditure – even though India has some of the worst nutrition indicators in the world and rising food prices have been a huge factor in determining the central government’s unpopularity. Here too, the UPA did not live up to its own electoral promises. It cobbled together a partial food security bill only towards the end of its tenure, so that it has still not been implemented. Indeed, as Chart 2 shows, the NDA government in the early 2000s actually spent more (as share of GDP) on the food subsidy than the UPA.

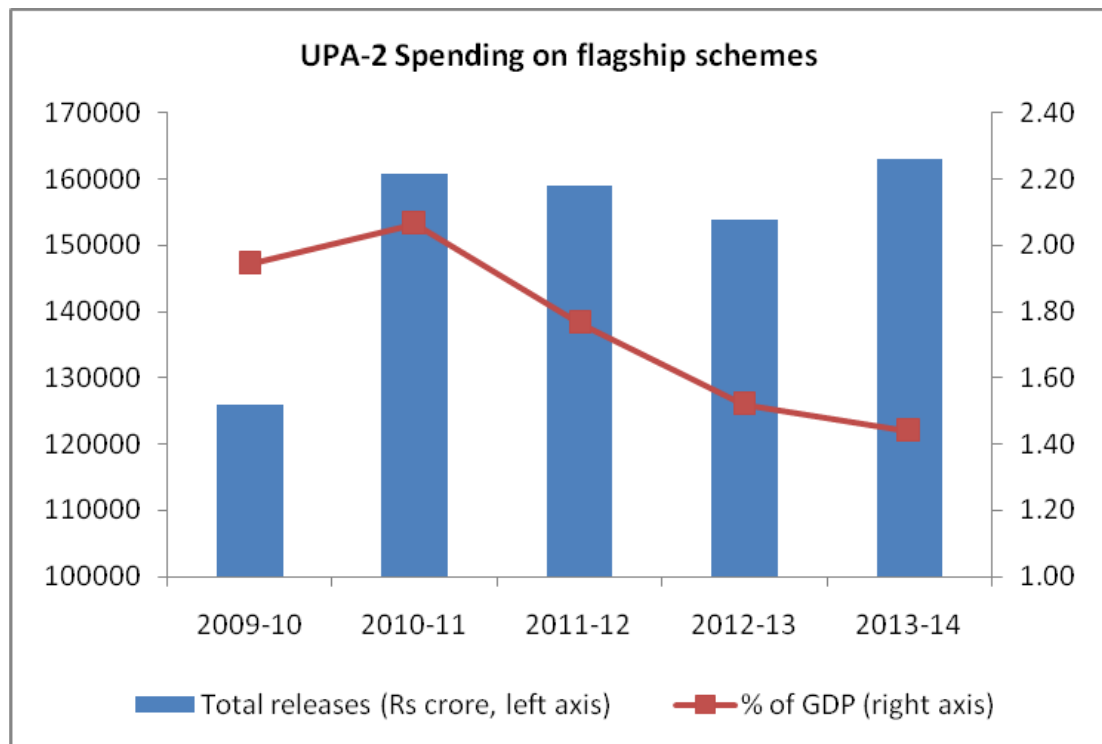
Chart 2: Food subsidy peaked during the first NDA government, and declined in UPA-2



Many spokespersons for the UPA liked to talk of the “[flagship schemes](#)” that they had brought in to improve the conditions of the mass of citizens. It is these that are commonly now decried as populist welfare schemes that are unaffordable for India and detracted from growth prospects. In actual fact, it is really only in India that these basic areas of public provision would be seen as special schemes rather than as normal public delivery to ensure basic needs of citizens. Yet even for these, the frequent declarations of intent have not been matched by actual spending, and the amounts involved have been pathetically low and even declining in real terms under UPA-2.

Chart 3 provides evidence of total spending on 13 flagship schemes : the Rashtriya Krishi Vikas Yojana ([KVVY](#)), the National Rural Drinking Water Programme ([NRDWP](#)), the National Health Mission ([NHM](#)) (earlier National Rural Health Mission), the Backward Region Grant Fund ([BGRF](#)), the Indira Awas Yojana ([IAY](#)), the Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA), the National Social Assistance Programme ([NSAP](#)), the Pradhan Mantra Gram Sadak Yojana ([PMGSY](#)), the Mid-Day Meal Programme ([MDM](#)), the Sarva Shiksha Abhiyan ([SSA](#)), the Jawaharlal Nehru National Urban Renewal Mission ([JNNURM](#)), the Integrated Child Development Services (ICDS) and the Accelerated Irrigation Benefit and Flood Management Programme ([AIBP](#)).

Chart 3: Spending on UPA's flagship schemes declined as share of GDP



Such a long list covering so many important areas! These must have cost a huge amount, right? Wrong! Chart 3 shows that the total Central releases for all these programmes taken together were below Rs 160,000 crore even in 2013-14. What is more, the amount has actually declined in constant price terms, and fallen significantly from the peak year of 2010-11, when it was just barely above 2 per cent of GDP. For a central government to spend such trivial amounts on these essential areas is not just embarrassing, it is downright criminal.

Seen in this light, it may well be that it was not just corruption etc. but also these crimes – of not taking its own flagship programmes seriously and not keeping its promises to the people – that actually led the electorate to punish the UPA so decisively.

* This article was originally published in Business Line on May 26, 2014.