

The Modi government's Social Spending

C.P. Chandrasekhar and Jayati Ghosh

Both inside India and abroad, the Modi government has trumpeted its achievements in social spending, as both a reason for its declared popularity especially with relatively less well-off voters and as an example for other governments to follow. The increase in the food subsidy during the Covid-19 pandemic and the continuation of free foodgrains through the Public Distribution for around 800 million people, the cash handouts to farmers and selected categories of women, etc., are all touted as major welfare benefits that are presented as gifts of the Prime Minister to the beneficiaries. This is far removed from the notion that the duty of the state is to ensure the fulfilment of the social and economic rights of people, which was the basis of the rights-based laws that were brought in by the previous UPA government. Ironically, the Modi government is now utilizing these laws (and the problematic use of Aadhaar and biometric identity, also brought in by the UPA) to implement its “welfare agenda”.

This argument has been uncritically accepted by a wide variety of observers and analysts, even seasoned political and economic commentators who presumably should be more careful about accepting official positions without some basic due diligence. Yet these claims are easily checked, most obviously through an examination of the central government's own officially released statistics about its expenditure. It emerges that in terms of aggregate social spending as a share of its total spending, the Modi-led NDA government has performed significantly less well than the previous much-maligned UPA government. Insofar as social spending has increased, it is entirely due to the efforts of the state governments, which have sharply raised their own social spending.

This effort to increase social spending by state governments has occurred despite the constraints on co-operative federalism brought in through various measures. These ranged from the centralizing institution of the Goods and Services Tax that deprived state governments of a major taxing right, to significantly increasing the cesses and surcharges on direct taxes that do not need to be shared with state governments.

The figures below (all based on data from the RBI's publications, *Handbook of Statistics on the Indian Economy* and *Handbook of Statistics on Indian States*, online editions accessed on 8 November 2025) provide some elaboration of these points.

Figure 1

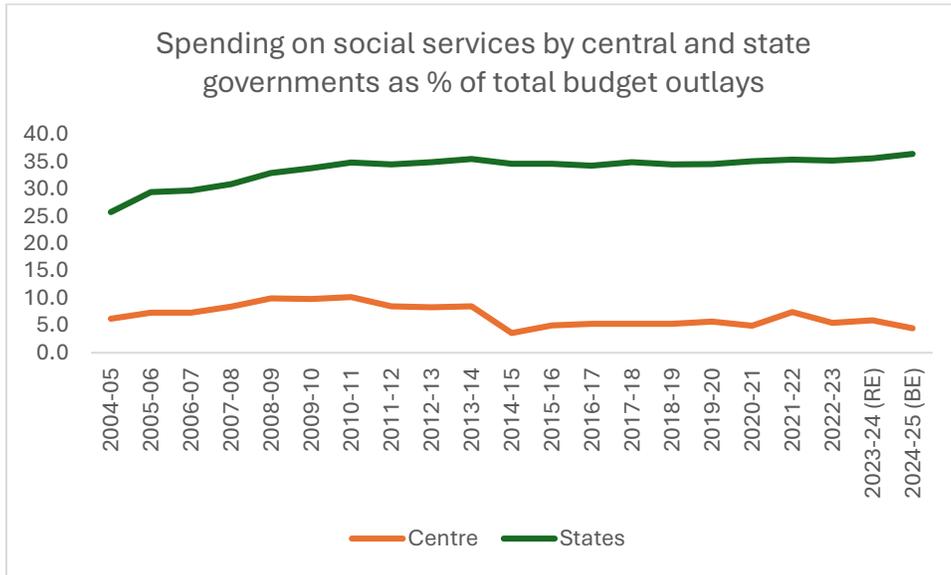


Figure 2

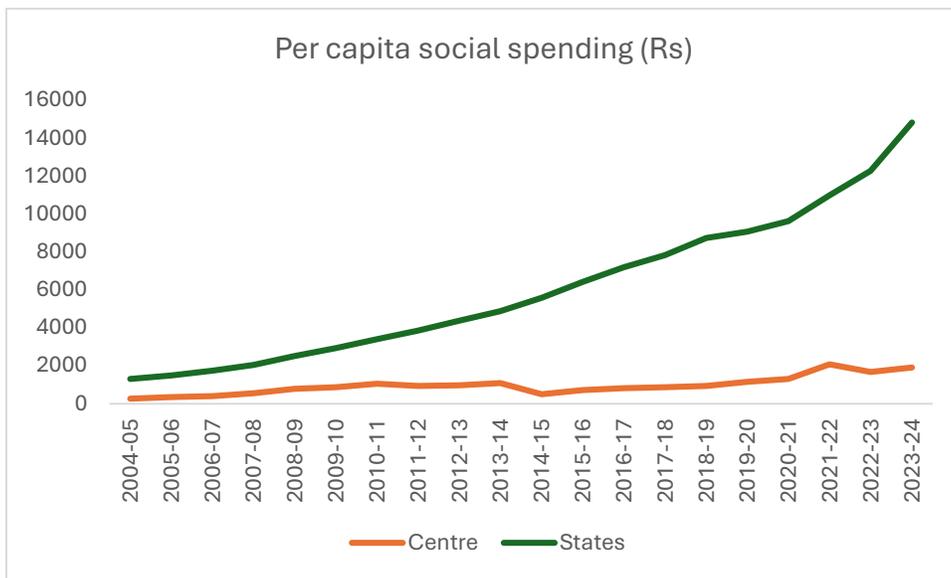
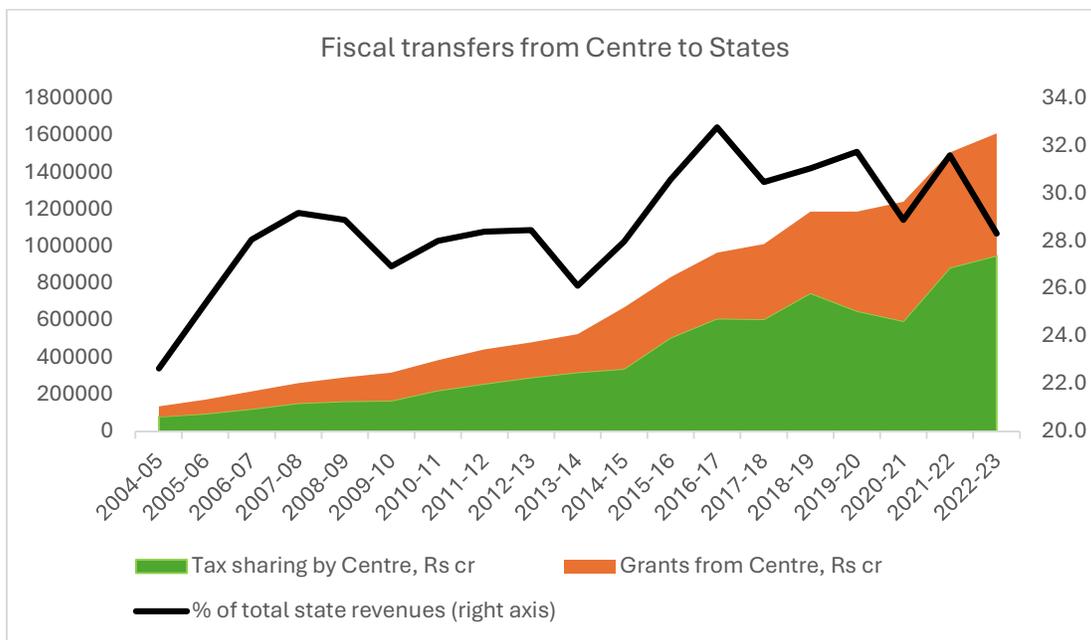


Figure 1 shows that the share of social spending in the total budgetary outlays of the central government fell from 2014-15 onwards (that is, the first year of the Modi government) and mostly stayed lower until the extraordinary year of the Covid-19 pandemic, that is 2021-22. This meant a drop in the average share of social spending in total expenditure from 8.5 per cent under the UPA government, to as low as 5.3 per cent in the 11 years under Modi. By contrast, state governments showed a much higher tendency to spend on social sectors, which was increasing throughout this period. They exceeded the central government in this by a multiple of more than 4 times under the UPA and more than 8 times under Modi!

The result of this is very sharply evident in per capita social spending by central and state governments, as shown in Figure 2. Note that these numbers are in nominal terms, so that they do not capture the impact of inflation. In addition, because of the lack of Census data after 2011, the estimates are based on population projections that are yet to be validated.

The largely stagnant per capita social spending of the central government is even more disturbing given the price increases that would have impacted ordinary people over this entire period. However, even in this regard, social spending under Modi underperforms relative to the immediate past. Over the UPA period, per capita nominal social spending increased by nearly 4 times (397 per cent), which exceeded the rate of consumer price inflation. But in the first decade of the Modi government, nominal per capita social spending increased by only 76 per cent, below the compounded increases in consumer prices. By contrast, state governments' nominal per capita social spending was well above the rate of inflation throughout this period, and especially so in the most recent decade.

Figure 3

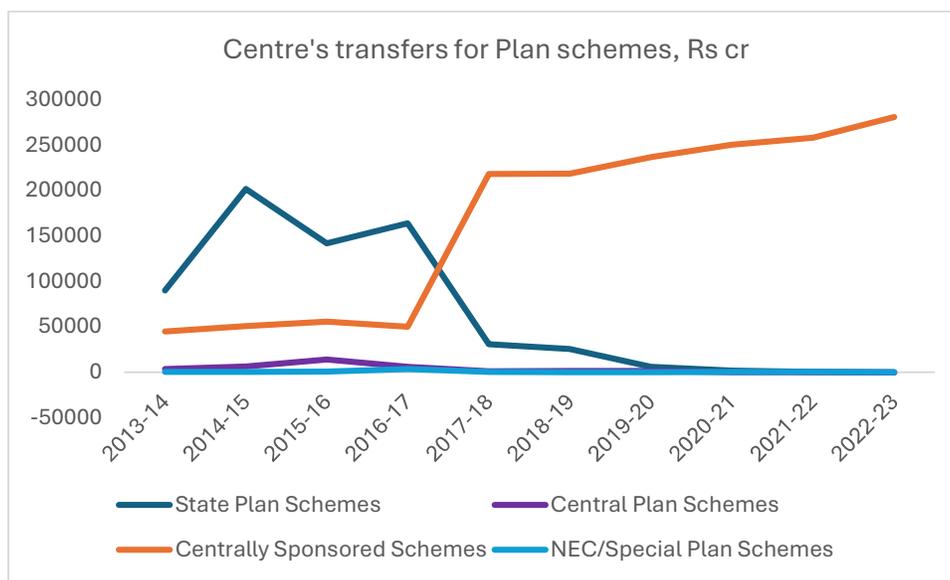


That state governments were able to achieve this increase in social spending is even more remarkable given the changes in both fiscal structure and the reduced role of transfers from the Centre to the States. Figure 3 plots this change. Remember that the 14th Finance Commission in 2014 increased the share of devolution to the states, from 32 per cent to 42 per cent, in a move that was designed to give the states greater flexibility to design their own programmes rather than being dependent on Centrally Sponsored Schemes that were not always designed to specific state contexts. While the Modi government officially

complied with this recommendation, as reflected in early increases in tax revenue transfers to states, it thereafter sought to reduce this impact by significantly increasing the reliance on cesses and surcharges, which are not required to be shared by state governments. The share of cesses and surcharges in gross tax revenue under the Modi govt rose from 10.4 per cent before the Modi government took over, to peak at 20 per cent in 2021-22, before coming down to 14.5 in 2023-24, still much higher than under the previous regime.

This meant that state governments had to reduce their reliance on fiscal transfers from the Centre, which came down from the peak of 32.8 per cent in 2016-17 to 28.3 per cent in 2022-23. Further, as Figure 4 indicates, the government has continued its commitment to fiscal centralization by reducing and virtually eliminating transfers for State plan schemes and instead focusing its non-tax transfer on centrally planned schemes, with attendant conditions that are not always desired or accepted by states. There is also evidence that transfers under this head have become increasingly partisan, in terms of denying funds to Opposition-ruled states and providing more funds to states ruled by the BJP.

Figure 4



This suggests that the widespread perception that the Modi government’s political success is based on wider delivery of social services may be misplaced. As with so much else with this regime, it is rather a reflection of its success in public relations and perception management.

** This article was originally published in the Business Line on 10 November 2025.*