

Miserly Welfare

Jayati Ghosh

It's not really clear why we keep looking to successive Union Budgets for significant economic policy changes. By now, experience should have taught us that we should neither believe the declared budget estimates of revenue and expenditure in the coming fiscal year, nor have much faith in the schemes and outlays that are promised in the Budget speech. Even so, we keep looking perhaps because we realise that some unstated priorities and approaches are revealed at least through the actual patterns of resource raising and spending.

In that context, three features of the current Budget stand out none particularly surprising. First, this Budget will do little if nothing to address the central problems facing the Indian economy today: sharp increases in inequality, leading to depressed mass consumption demand; related to this, a serious employment crisis reflected particularly in largely stagnant real wages, worsening conditions of self-employment and real distress in finding jobs especially for the youth; and all this then resulting in sluggish private investment, not just among corporates but also among small and medium enterprises that see much reduced possibilities of profitable economic activity.

Dealing with this would have required significant changes in policy orientation: more public spending in health, education, agriculture and rural development; proactive employment generation policies not just through genuine employment guarantees in rural and urban areas but also through a systematic package to create financial viability and technology access for small and medium enterprises; and greater no-strings generosity to state governments that are also better positioned to make such changes on the ground.

It is obvious that none of these is likely to happen, and indeed the current Budget makes moves in exactly the opposite direction. This relates to the second feature: the greater centralization and politically partisan approach to state governments that is getting more extreme by the day.

The Modi government's miserly bordering on exploitative attitude to state governments, as well as its overtly partisan approach, has come out clearly in fiscal policy. Tax revenues are constitutionally required to be shared with the state governments, according to a ratio and pattern determined by successive Finance Commissions. The 14th Finance Commission, chaired by Y. V. Reddy, recommended increasing the states' share in total divisible pool from 32 per cent to 42 per cent, to be implemented over the period 2015-2020. Yet, the government has effectively managed to circumvent this, by significantly increasing the share of cesses and surcharges on taxes, which do not have to be shared with the states. This has brought down the share of tax revenues going to states to 34 per cent in the last few years, which is also evident in the revised estimates of the current year.

At the same time, the Centre has taken decisions on taxation (like sharply reducing the corporate income tax rate in 2019, resulting in loss of tax revenues of more than 2 per cent of GDP in the following year, and probably much more in subsequent years) without consulting state governments. So states' revenues are curtailed by such central policies, without any compensation.

And now, this year's Budget reveals that when anticipated tax revenues are not received, the default choice of the central government is to cut central transfers to states. The revised

estimates suggest that net tax revenues going to the Centre are going to be lower than the budgetary expectation by as much as Rs 162,748 crore. So the response has been to cut down the “grants in aid” to state governments by as much as Rs 119,041 crore and reduce spending on centrally sponsored schemes by as much as Rs 121,772 crore—thereby even getting a tidy “surplus” of more than Rs 78,000 crore to bolster central finances. These reductions then force state governments to take up the slack, even when they face many more legal and regulatory fiscal constraints and have given up most taxing rights because of the GST.

The Modi government’s politically partisan approach to states has also been evident for some time, felt by states like West Bengal where the MNREGA funds were simply stopped for years, and other Opposition-ruled states that have been denied central funds even in the face of natural calamities. Meanwhile, other states are openly promised more funds if only their people choose to elect a “double-engine sarkar” in a brazen denial of basic principles of federalism.

But the centralizing tendency has become most evident recently in the law that effectively dismantles the rural employment guarantee, by changing its character away from a rights-based demand-driven scheme available in all rural areas, to one in which the central government decides, when, where and how much employment it provides, and allows more capital investment and contractors. All this even as the new law requires state governments to bear 40 per cent of the costs (compared to 10 per cent or less earlier), which would make it financially impossible for most states to continue a part of the present level of employment in the scheme, even if the Centre were to decide on it.

The Budget allocates Rs 95,692 crore for the new Viksit Bharat-Guarantee for Rozgar and Ajeevika Mission (Gramin) (VB-G RAM G). It is quite possible that other planned rural infrastructure works will be simply transferred on to this scheme, because capital-intensive contractor-based works can also be undertaken. In addition, the Centre expects state governments to cough up an additional amount (equivalent to 40 per cent of the total) to bring the total up to Rs 151,282 crore. This is financially impossible for most states, which are already facing huge financial pressure, so the Centre can then blame the states if the new scheme delivers less than the MNREGA, as it is bound to. The promise of 125 days of work per household will obviously not be met, but now the Modi government can say that it is not its own fault, but that of the state government that has refused to do its bit. It can win both ways: claim the scheme as yet another “gift” of the leader rather than a right of the people and then blame state governments if the scheme does not deliver.

This devilish twist in the tail is very much a part of the third feature that emerges clearly from this Budget: the fixation of this government with optics rather than substance, and its remarkable ability to control the public narrative however far that narrative may be from the objective reality. All the public documents most recently the Economic Survey and the Budget Speech are full of self-congratulation, positive assessments based on cherry-picked or manipulated data, and active denial of any unpleasant truths. This approach is terrible for good governance, but maybe more effective if the real purpose is just to keep ruling.

[This article was originally published in The Telegraph on February 2, 2026.](#)