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Who Really Benefits from Welfare Transfers?

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Welfare transfers are not subsidies to the poor; they subsidise capital when wages fail to reproduce labour. To call them political expediency is to misrecognise their structural role in managing the social consequences of an economy that no longer secures livelihoods under stark inequality.

Recently, the Supreme Court of India expressed concern over what it called the "unchecked culture of freebies", suggesting that governments would do better to create employment than distribute benefits that resemble "appeasement". The [criticism echoes a familiar refrain](#) in India's public discourse-that welfare transfers distort economic incentives, strain public finances, and reward political opportunism.¹

In July 2022, inaugurating an expressway in Uttar Pradesh, [Prime Minister Narendra Modi said](#): "Everything that harms the country, affects the development of the country, have to be kept away". "Double-engine governments are not adopting the short-cut of freebies and 'rewri' (or 'revdi') culture and delivering through hard work". "Defeat and remove freebies culture from the politics of the country". This resonated with what he said in the parliament in February 2015, that he would keep the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) only as a relic of the monumental failure of the Congress in government.

In his attacks on *rewri* culture in general and the MGNREGA in particular, the Prime Minister echoed a line of reasoning long advanced by pro-growth economists. In *Why Growth Matters*, Arvind Panagariya and Jagdish Bhagwati argue that expansive subsidy regimes and programmes such as the MGNREGA risk crowding out productive investment, distorting labour markets, and yielding uncertain gains in poverty reduction (2003: 160-164).

They do not reject redistribution altogether; rather, they favour more targeted instruments-cash transfers and/or vouchers for health and education-delivered in ways that minimise market distortions. In this framework, redistribution must follow growth rather than substitute for it, a view that led the authors in 2013 to celebrate Modi's so-called "Gujarat Model" and endorse him as India's most suitable prime ministerial candidate.

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Yet, India has moved in a different direction. The actual politics of welfare has repeatedly defied such technocratic prescriptions. Even the Modi government, which often echoes this growth-first critique, routinely expands transfers and subsidies when electoral incentives demand it.

After the Bharatiya Janata Party (BJP) secured only 17 of Maharashtra's 48 Lok Sabha seats in 2024, the Mahayuti or "Great Coalition"-as the National Democratic Alliance (NDA) is known in Maharashtra-promptly increased payments under the Mukhyamantri Majhi Ladki Bahin Yojana and released instalments ahead of the state elections. In Bihar last year, Rs. 10,000 was transferred to 7.5 million women on the eve of the state election. In both states, the NDA prevailed.

Why does this gap persist between sermons against welfare transfers and the routine expansion of welfare programmes?

The answer, I suggest, lies in the way we frame the problem. Freebies are often treated as political or fiscal aberrations. In reality, they are neither. They are economic and social necessities in a political economy where capitalism increasingly struggles to reproduce livelihoods through wages alone. In short, freebies are not primarily subsidies to the poor; they are mechanisms that contain political tension and subsidise capital when it fails to reproduce labour through wages.

Welfare, of course, is not an alien idea in India's constitutional imagination. The Directive Principles in Part IV-especially Articles 38 to 47-outline a normative architecture of social justice. They call upon the state to secure a social order that minimises inequalities, prevent the concentration of wealth, protect the right to livelihood, assist the unemployed, ensure humane conditions of work and maternity relief, and promote nutrition, public health, and education. These principles were conceived as directives of governance rather

than enforceable rights.

If profits were reinvested rather than hoarded, growth would expand the economic pie in ways that supported both accumulation and social provisioning.

In her essay "The Gentle Leviathan", Niraja Gopal Jayal argues that by separating these non-justiciable welfare commitments from the enforceable "liberty rights" of Part III, the Constitution grounded welfare in a language of state responsibility tempered by discretion. "The Indian state adheres to a needs-based conception of justice in theory," she observes, "but in practice follows a philosophy of welfare manifestly based in ideas of charity and benevolence. The idea of a right to welfare is clearly precluded" (1994: 22).

Income transfers and subsidies, therefore, are not sudden political inventions; they are contemporary instruments through which an older constitutional commitment to social and economic justice is expressed.

There are, however, important differences between welfare in its classical sense-echoed in the Constitution-and what is today described as the "new" welfare associated with freebies. In its classical conception, welfare was understood as structurally integral to liberal capitalism. John Maynard Keynes anticipated that public and private investment could sustain a high and stable level of employment, wages, and effective demand. If profits were reinvested rather than hoarded, growth would expand the economic pie in ways that supported both accumulation and social provisioning.

Early experiments in India partly moved in this direction. In Tamil Nadu, K. Kamaraj expanded free education and school meals from the late 1950s. The promise of heavily subsidised rice by C.N. Annadurai in 1967 marked a decisive shift: welfare became not only developmental policy but also a visible political claim.

Around the same time, Kerala moved towards near-universal schooling through extensive public provisioning and regulation of aided schools well before education was recognised nationally as a fundamental right. Maharashtra's Employment Guarantee Scheme of the early 1970s, conceived partly to provide rural employment and slow distress migration to Bombay, offered another example of welfare tied directly to the creation of work rather than simple transfers, anticipating later national programmes such as the MGNREGA (Echeverri-Gent 1988). In these early initiatives, welfare was tied to the expansion of capabilities and public services, reinforcing attempts to steer capitalism in a more humane direction.

If classical welfare sought to integrate citizens into the productive economy as rights-bearing members, the "new" welfare operates through the idiom of beneficiaries or labharthis dependent on the benefactor's largesse. Entitlements grounded in universal rights and systematic public provisioning give way to targeted distributions of private goods such as cycles, laptops, televisions, or cash transfers. Enabled by digital identification and direct bank credits, welfare can now be finely individuated even when directed at specific classes or communities.

But the broader logic persists: a significant share of state revenue arises from the taxation of income and consumption, while the taxation of accumulated wealth has never occupied a central place in fiscal policy.

Classical welfare emerged from the crises of the 1930s and the imperatives of post-war reconstruction. Public provisioning in healthcare, education, pensions, and employment aimed to secure full employment, widen the middle classes, and narrow inequality.

The "new" welfare follows a different logic. Sluggish private investment and constrained public provisioning have limited the economy's capacity to generate stable employment, even as growth continues. Transfers thus acquire a structural role, institutionalising compensation where incorporation through wages and productive work remains inadequate.

India's fiscal architecture is also notable for what it does not tax. Estate duty disappeared in 1985 and the wealth tax in 2015, leaving large concentrations of wealth virtually untouched. Although direct taxes now account for a larger share of India's total tax revenue, their internal composition has shifted. Personal income tax has grown in relative importance, while corporate taxation has been moderated through successive rate reductions and concessions, even if it continues to yield substantial revenues.

Indirect taxes, meanwhile, remain a crucial pillar of fiscal capacity because they draw revenue from everyday consumption across society. The burden is unevenly distributed, often felt most sharply by the middle classes, though not absent for poorer households in specific domains. But the broader logic persists: a significant share of state revenue arises from the taxation of income and

consumption, while the taxation of accumulated wealth has never occupied a central place in fiscal policy. The controversy over freebies, therefore, unfolds in a fiscal landscape where wealth itself contributes remarkably little to the public purse.

From this vantage point, freebies are not primarily subsidies to the poor; they are mechanisms that subsidise capital when it fails to reproduce labour through wages. When capital cannot guarantee a living wage, labour power must be sustained at subsistence through state transfers. This operates through a triadic strategy.

First, intensify extraction: extend working hours, weaken collective bargaining, ease dismissals, and suppress wage growth (recent labour law reforms bear testimony to this shift). Second, restructure revenue: keep wealth lightly taxed while expanding the fiscal base through broad-based consumption taxes that draw revenue from society at large. Third, recycle a fraction of this revenue back to the working poor, the unemployed, and the precariat through targeted transfers, personalised as benevolence and converted into political capital.

To describe freebies as merely a political necessity is therefore to misrecognise their structural function. They are the political form through which the state manages the social consequences of an economy that no longer secures livelihoods through wages.

Despite frequent claims that freebies drain the public purse, India's fiscal structure tells a different story. Since the introduction of the goods and services tax (GST) in 2017, indirect taxes on consumption have become a major pillar of government revenue, accounting for a substantial share of both central and state tax receipts.

Even at the Union level, core social sector spending accounts for roughly one-fifth to one-quarter of total expenditure, with narrowly targeted welfare transfers forming only a subset within it.

Many essential food items consumed by poorer households remain outside the GST net. Yet indirect taxes are not absent from their lives: medicines, packaged goods, telecom services, school supplies, and other everyday purchases all attract GST. The burden is most visible among the middle classes, whose consumption lies largely within the taxed formal economy, but indirect taxation still draws revenue from consumption across the social spectrum.

Direct taxation, meanwhile, remains confined to a relatively small segment of the population: barely 50 to 60 million individuals pay income tax in a country of more than 1.4 billion people. This reflects not only the distribution of incomes, but also the design of the tax system itself: income tax becomes payable only at a relatively high multiple of per capita income, a threshold that has risen over time, effectively narrowing the direct tax base.

In this setting, the fiscal state continues to draw heavily on consumption rather than income, even as accumulated capital itself remains lightly taxed. The asymmetry is reinforced by recent tax policy. In September 2019 the government sharply reduced corporate tax rates from 30% to 22% for existing firms and to 15% for new manufacturing companies at an estimated fiscal cost of roughly Rs. 1.45 lakh crore annually. The state thus lightened the fiscal burden on capital even as public debate fixated on the supposed excesses of welfare.

How much of this revenue returns to the social sector, of which so-called freebies constitute only a small fraction? Combined tax revenues of the Union and the states amount to roughly 17% to 18% of gross domestic product (GDP). Of this, total social sector expenditure accounts for about 8% to 9% of GDP (*Economic Survey 2023*), while direct cash-transfer style schemes constitute only a fraction of that outlay, often around 1% to 2% of GDP, depending on how narrowly they are defined.

Even at the Union level, core social sector spending accounts for roughly one-fifth to one-quarter of total expenditure, with narrowly targeted welfare transfers forming only a subset within it (Kapur et al. 2025). Although social sector provisioning is constitutionally centred in the states, the Union has progressively extended its influence through centrally sponsored schemes and shifting cost-sharing arrangements, often expanding its policy reach without proportionately augmenting its fiscal commitment. Much of its revenue arises from taxes on consumption, borne most visibly by the middle classes but ultimately drawn from consumption across the social spectrum.

What is presented as political largesse is, fiscally speaking, little more than a partial recycling of public revenue. Even then, as studies show, while social sector spending expanded during the pandemic, subsequent trends suggest a moderation in the growth of several components rather than a sustained increase (See Reserve Bank of India data on social sector spending compiled in RBI 2026).

The real question is this: while recipients of welfare are routinely branded *labharthis*, are those who command capital doing their part in sustaining India's growth? The fiscal state continues to draw heavily on taxes linked to consumption borne most visibly by the middle classes and, to a lesser extent, by poorer households as well. Public debate, however, directs its moral scrutiny almost entirely at welfare recipients.

In such a context, state transfers appear less as fiscal indulgence and more as compensation for an economy that no longer absorbs labour adequately.

Are profits being reinvested in ways that generate employment and support both accumulation and social provisioning? India's recent trajectory raises doubts.

The investment surge from 2003 to 2008, when growth averaged 8% to 9%, was followed by a prolonged slowdown after 2008. Between 2014 and 2019, growth persisted, but private investment remained subdued relative to GDP. In the post-pandemic years, corporate profits and stock markets have risen sharply, yet the recovery of investment has been cautious and uneven.

Profitability has revived far more decisively than investment, producing what many observers describe as jobless (or even job-loss) growth. In such a context, state transfers appear less as fiscal indulgence and more as compensation for an economy that no longer absorbs labour adequately.

This weakness, however, is not only a matter of the volume of investment but also of its composition. In recent years, the modest revival of investment has been driven largely by [government-led infrastructure spending and contracts awarded to large private firms](#). Such projects are capital-intensive and increasingly mechanised. While they expand the country's physical infrastructure such as highways, bridges, airports, and ports, their capacity to generate large-scale employment remains limited.

The result is a growth process that raises profits and output without absorbing labour commensurately-what has often been described as a post-pandemic "K-shaped" recovery. Gains are concentrated among capital and higher-income groups, while large sections of the workforce lag behind, reinforcing the structural conditions that make state transfers politically unavoidable.

When wages stagnate, jobs shrink, and profits swell for the few, the stage is set for promises of dramatic rescue. The anxious majority turns to the allure of a superhero, a supreme leader projected as capable of restoring balance with a decisive stroke. Such mobilisation can move in two directions.

It can turn vertically against concentrated wealth. Or it can shift laterally against fellow claimants of welfare, recast as alien, undeserving, or disloyal. The first confronts power. The second rallies a vulnerable majority against an equally, if not more, vulnerable minority marked by ethnicity, nationality, or religion.

What returns to citizens through welfare programmes is modest when set against the revenues the state mobilises and the fiscal privileges extended to capital through fiscal policy.

In both cases, the language of popular democracy is invoked even as representative institutions are hollowed out. Bottom-up challenges-from Venezuela to Greece-stumbled under sanctions, fiscal crises, or internal contradictions. Majoritarian surges, by contrast, have often stabilised the existing order by shrinking the space for dissent and redirecting popular anger sideways rather than upward.

In this setting, freebies are not merely economic correctives; they become instruments for extending the social hegemony of the ruling elite. As instruments of political power, cash transfers and commodity handouts are carefully staged through a powerful optics of benevolence, foregrounding the generosity of the leader and creating the impression that such schemes occupy a far larger share of public spending than they actually do. Their everyday visibility from giant roadside billboards bearing the leader's smiling visage to page-length newspaper advertisements depicting folded hands of gratitude continually reinforces this image of personalised largesse.

The debate on freebies appears rather differently when placed in its wider political-economic context. Transfers to households are not merely electoral manoeuvres; they are also devices through which contemporary capitalism manages the social consequences of weak wages, precarious employment, and uneven growth.

What returns to citizens through welfare programmes is modest when set against the revenues the state mobilises and the fiscal privileges extended to capital through fiscal policy. Seen against the backdrop of India's widening income and wealth inequalities, the scale of this imbalance becomes even clearer.

Recent inequality estimates underline the scale of the imbalance. According to the *World Inequality Report 2022* and subsequent updates by the World Inequality Lab, the richest 1% of Indians own roughly 40% of the country's wealth, while the top 10% control about 65% of it. The bottom half of the population holds barely 6.4%. A similar pattern is visible in income distribution: the top decile captures close to 58% of national income, whereas the bottom 50% receives only about 15% (Chancel et al. 2026: 176).

The same research suggests that such disparities are not immutable: progressive taxation, redistributive transfers, investment in human capabilities, and institutional reforms can significantly moderate them (Chancel et al. 2026: 31).

Corporate accumulators and crafty demagogues converge to convert modest welfare into spectacles of benevolence, while quietly guarding a regime of hyper-accumulation amid deepening inequality.

Three propositions follow. First, freebies are not merely political manoeuvres; they are economic devices that manage the social consequences of contemporary capitalism's deep imbalances. Second, what returns to the poor through welfare programmes is modest when set against the scale of inequality the system produces-particularly in a fiscal regime that draws heavily on taxes linked to everyday consumption, which weigh proportionately more on those with the least to spend.

Third, where the state compensates for capital's failure to pay living wages, the real labharthis of this political economy are not the recipients of freebies at all. They are the alliance of concentrated wealth and political power—a system of crony capitalism in which corporate accumulators and crafty demagogues converge to convert modest welfare into spectacles of benevolence, while quietly guarding a regime of hyper-accumulation amid deepening inequality.

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Footnotes:

1 For a recent analysis of freebies in social policy and their relationship with citizenship, see Aditi 2025.

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