This story is from October 4, 2025

On welfare, results matter more than amount spent

TNN

Oct 4, 2025, 7:27 IST

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A booming economy sits uneasily atop deep income divides. A smarter, reliable welfare architecture can transform 'safety nets' into 'trampolines' — lifting India's poorest into the promise of growth

Despite global headwinds, India is the world's fastest-growing large economy, and by 2047, aspires to be a Viksit Bharat or a fully developed nation. Getting there will require us to pay attention to both growth and welfare.

The centrality of welfare for citizen well-being is seen in India's income distribution. Our mean per capita income of $2700/year puts us in lower middle-income-country status. But the average hides vast inequities. As the 2025 Indus Valley Report highlights, there are "three Indias" by income: India-1 — the top 10% with incomes around $15,000/year; India-2 — the next 20% at around $3,000/year, and India-3 — the bottom 70%, with incomes around $1,000/year. In other words, around a billion Indians have incomes comparable to those of poor sub-Saharan African countries, and it is mainly through welfare programmes, such as free foodgrains and cash transfers, that India-3 obtains at least some of the benefits of growth.

Before we despair at these inequities, it is worth noting that rising inequality has historically accompanied the growth process, which disproportionately benefits those with physical, financial, and human capital. It is a virtue of Indian democracy that electoral incentives push all political parties to distribute the benefits of growth through welfare. This “Indian model” has done reasonably well — delivering growth rates of 6-7% with welfare contributing to inclusion.

Better Quality Of Welfare Spending

But we can do much better by improving the quality of welfare spending. Debates on welfare programmes in India often pit opponents who criticise them as “freebies”, and proponents who see them as essential “lifelines” for the poor. However, this oversimplifies the debate. A key lesson from economic theory and evidence is that the details of programme design and delivery matter enormously. So, a better way forward is to assess specific welfare programmes through their impact on equity and efficiency.

Consider free electricity for farmers. While partly justified in the name of farmer “welfare”, it mainly benefits better-off farmers: the top 5% of landowners capture around 50% of the subsidy! It also hurts efficiency by encouraging water-intensive crops, depleting groundwater, and raising industrial power tariffs through crosssubsidies. This is therefore “welfare” that hurts both equity and efficiency.

In contrast, the National Rural Employment Guarantee Scheme (NREGS) promotes equity by mainly benefiting landless labourers. Research shows that improving its implementation (by reducing corruption and payment delays) also raised wages, employment, and incomes, and sharply reduced rural poverty. These efficiency gains came from NREGS increasing workers’ bargaining power against landlords with market power, and from the multiplier effect on economic activity of greater demand from the rural poor.

These examples highlight a key fact: welfare is not a monolith. Some programmes hurt both equity and efficiency, while others advance both. So, we can deliver much better outcomes with the same welfare budget by phasing out the former and investing more in the latter.

Singapore’s President, Tharman Shanmugaratnam, has distinguished between safety nets and trampolines. Both protect people when they fall, but nets can trap them, whereas trampolines help them bounce back. Many Indian welfare programmes behave like nets that keep people in poverty. A leading example is agricultural subsidies that tie people to low-productivity farming. In contrast, replacing them with income transfers that are not tied to specific locations or activities would enable people to migrate to higher-productivity urban areas, invest in skills, and take more risks. This will expedite India’s structural transformation (moving labour from farm to non-farm, rural to urban, and informal to formal sectors), which is key to faster growth.

The Promise of Income Transfers

A recent study in Jharkhand highlights the promise of income transfers. Mothers received Rs 500 per month for two years after childbirth, equivalent to about 10% of household consumption. The results were striking. Household food spending rose significantly, calorie intake increased, and dietary diversity and quality improved. We also found a meaningful reduction in intra-household gender inequity. Child's cognitive and motor skills also improved. The takeaway is clear: targeted cash transfers to women can improve nutrition, gender equity, and child development — and thereby promote both shortterm equity and long-term productivity.

The good news is that India's world-leading digital payments infrastructure has enabled a sharp increase in income-transfer programmes. Women-focused transfers alone have grown from nearly zero in 2018 to around Rs 2 lakh crore annually (0.6% of GDP) in 2025 and now reach over 130 million beneficiaries. The focus should now be on improving design and delivery so that this fiscal commitment translates to maximum impact. Three key principles are noted below:

Rationalisation and coherence: India has hundreds of overlapping central and state schemes. Consolidating them into fewer, better-funded, and more coherent programmes would reduce duplication, improve administration, and deliver more for citizens.

Predictability and reliability: Welfare is only meaningful if it arrives on time, every time. Sporadic announcements and erratic delivery blunt impact. Building systems that deliver predictably will transform welfare from patchwork relief into genuine social insurance.

Empowerment and choice: Once citizens trust that income transfers will arrive reliably, the payments infrastructure can be used to build a choice-based welfare architecture. For instance, giving farmers a choice between input subsidies and income support would empower them to use welfare funds as they see fit. This would help shift farmer welfare from nets that trap them in low-productivity farming to trampolines that enable mobility and productivity.

Conclusion

Welfare programmes are a moral, political, and economic necessity for Viksit Bharat. Yet, public debate focuses more on the amount of welfare spending than on its effectiveness. A key insight is that the same budget can deliver much greater effective welfare if we shrink programmes that hurt equity and efficiency and expand those that promote both.

Doing so with a focus on rationalisation, reliability, and citizen choice will allow India's welfare spending to become a powerful engine of both equity and efficiency. Done right, welfare can protect the vulnerable, empower upward mobility, and boost productivity — laying the foundations for achieving an inclusive Viksit Bharat by 2047.

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