

Social Sector Budget Look towards the States

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The Union Budget 2026 carries on the trend of increased dependence on state governments for social sector spending while the share of the union government diminishes. A deeper look at the trends in allocations for some major schemes in the social sector, and an analysis of the reduced revised estimates demonstrates the increasing role of state governments in social sector expenditure.

Insufficient allocation for social sectors such as health, education, and social security in India is not unusual. Spending goals set by national policies for education and health and repeated in various official documents have never been achieved. The Kothari Commission on education in 1964 recommended that at least 6% of the national income must be spent on education (Education Commission 1966) and this was incorporated in the National Policy on Education, 1968. For health, while the National Health Policy of 1983 as well as 2002 discussed in detail the problem of underspending on health, the High Level Expert Group (Planning Commission 2011) recommended that the government expenditure on health be increased to 2.5% by the end of the Twelfth Five Year Plan period (2017) and to at least 3% of the gross domestic product (GDP) by 2022. These recommendations were reiterated in the National Health Policy, 2017 with a revised target of achieving 2.5% by 2025 (Government of

India 2017). The current spending on education is less than 4% of the GDP and on health, and despite increases in recent years, we are only around 1.6%. Compared to other countries with similar levels of GDP per capita, India spends less as a proportion of GDP on education, health, and social security (Sinha 2025).

Despite the gaps in coverage, quality and increasing privatisation, India has a strong welfare architecture backed by several rights-based legislations. Annual budgets are often not just accounting exercises but opportunities for the government to communicate to people what its priorities are and for citizens to review state performance and demand accountability. Over the last decade, most union budgets have been accompanied with announcements of medium-term intent and flagship schemes. In this background, the Union Budget 2026 was surprisingly missing any new big-ticket items.

The union budget has also been a much-anticipated event, especially since the COVID-19 pandemic, because of the slack in the economy, particularly in private investment. The role of government expenditure in this context has been emphasised by many as being important towards reviving demand, especially in rural areas. The GST rates were reduced a few months back, in October 2025, and this

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move was expected to increase demand to some extent. The government's strategy to boost private investment has been based primarily on supply-side measures of giving tax incentives and easing credit access. It has hoped to crowd-in private investment by enlarging capital expenditure (capex) massively. While the enhanced capex has not yet shown results, this trend continued this year as well.

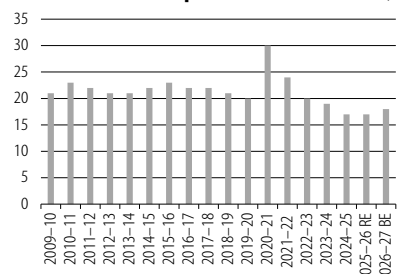
On the other hand, social sector expenditures can also contribute to boosting demand in the economy (Sinha 2025). Expanding welfare schemes by measures such as increasing the number of days of work and/or wages provided under the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), 2005 (now replaced by the Viksit Bharat-Guarantee for Rozgar and Aajeevika Mission [Gramin] [VB-G RAM G] Act, 2025), filling vacancies in various government departments (public administration, schools, healthcare and so on), enhancing social security pensions not only provides direct relief and services to people at the margins but also helps drive the demand multiplier. The latest budget has, however, been disappointing on this front. The allocations for most of these programmes have not increased in any substantial manner, and the revised estimates (RE) for 2025-26 show that the spending for the previous year is much less than what was allocated in the budget estimates (BE). Furthermore, this budget also solidifies the trend of depending on state governments for spending on the social sector, whereas the role of the union government is more in setting the agenda and the normative framework.

Stagnant Allocations for the Social Sector

The social sector expenditure as a proportion of the total union government expenditure has been stagnant at around 20%–21% since more than a decade ago. While there was a spike during 2020–21 (30%) and 2021–22 (23%) due to the COVID-19 pandemic-related relief measures, there has been a steady decline in the share of social sector expenditure in the total union government expenditure since, with the current levels being the lowest in the last 15 years. Social

sector expenditure declined to 17% in the last two years, and the allocated expenditures in the current budget (2026–27) are also only 18% of the total expenditures, reflecting a declining priority for the social sector in the union budget (Figure 1) (Pandey and Kapur 2026; Accountability Initiative Staff 2023).

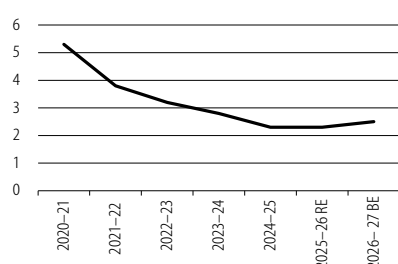
Figure 1: Social Sector Expenditure as % of Union Government Expenditure (%)



Source: Accountability Initiative Staff (2023) and Pandey and Kapur (2026).

As a share of GDP as well, the union government's social sector expenditure's share had peaked at 5.3% and 3.8% during the pandemic years, but it is only around 2.3% to 2.5% currently (Figure 2).

Figure 2: Social Sector Expenditure as a Share of GDP (%)



Source: Pandey and Kapur (2026).

Compared to BE 2025, the allocations for health and education increased by 6.4% and 8.3%, respectively in BE 2026. However, in terms of the share in the overall budget, health increased from around 1.9% to 2% and education increased from 2.5% to 2.6%. Therefore, although there is a nominal increase in the budget allocations this year, neither are they commensurate with the requirement nor do they indicate any efforts towards increasing the allocations to achieve the stated policy goals.

Further, schemes targeted at the most vulnerable sections of the population, such as children, pregnant women, the aged, single women, and the disabled, have been the worst affected. These schemes have always seen low allocations, with

their value declining in real terms. This trend continues this year as well. The budget for the National Social Assistance Programme (NSAP), providing social security pensions for the aged, single women and disabled, increased in nominal terms by 0.2% from ₹9,652 crore in BE 2025 to ₹9,671 crore in BE 2026. The allocation for the Samarthya programme of the Ministry of Women and Child Development (MWCD), which includes maternity entitlements (Pradhan Mantri Matru Vandana Yojana) and crèches (Palna scheme), saw a minimal increase of 2% from ₹2,521 crore in BE 2025 to ₹2,573 crore in BE 2026; the PM POSHAN (school mid-day meals) allocations increased by ₹250 crore (from ₹12,500 crore to ₹12,750 crore); while the Saksham Anganwadi (for the young child, pregnant and lactating women, and adolescent girls) saw a more modest increase of 5.2% in nominal terms (from ₹21,960 crore to ₹23,100 crore) in this year.

These slow and nominal increases must be seen in the context of the union government's declining social sector budgets in real terms over the last decade. In a number of centrally sponsored schemes, the union budget has declined in the range of 20%–30% from 2015 onwards (Accountability Initiative Staff 2023; Sinha 2025).

Consistent Underspending

Budget 2026 stands out for its treatment of the social sectors when we look at the revised estimates for 2025–26. The 2026 budget documents not only give us the allocations for the current year but also an indication of how much has been spent through the RE figures, which are based on spending patterns during the first half of the year. Budget 2026 reveals that RE for 2025–26 was lower than BE across almost all social sector heads, indicating that even what is budgeted is not spent. With a shortfall in tax revenue of roughly ₹1.92 lakh crore and the continuing fiscal consolidation strategy where the fiscal deficit projection remains the same, expenditure cuts are inevitable (Azad and Chowdhury 2026). Once again, it is the social sector expenditures that have been treated as residuals which can be adjusted and not as priority spending

areas. The largest declines are seen in urban development (41%), rural development (20%), and social welfare (17%). Housing schemes like PMAY-Grameen and PMAY-Urban saw RES (₹32,500 crore and ₹7,500 crore, respectively) that were much lower than their initial BEs (₹54,832 crore and ₹19,794 crore, respectively).

Another flagship scheme, the Jal Jeevan Mission, through which the government aims to provide access to piped drinking water to all households, saw a massive drop from ₹67,000 crore BE to a revised estimate of only ₹17,000 crore RE in 2025-26. Incidentally, the Comptroller and Auditor General of India (CAG) audits have flagged significant discrepancies in the implementation of the Jal Jeevan Mission, including procurement lapses, misreporting of tap connections, and price deviations of up to 30% in several states (Policy Circle 2025).

Table 1: Social Sector Expenditure—Budget Estimates and Revised Estimates

Sector	2025-26 BE	2025-26 RE	2026-27 BE	BE 2025 to BE 2026 (%)	BE 2025 to RE 2025 (%)
Urban development	96,777 (1.91%)	57,204 (1.15%)	85,522 (1.60%)	-11.63	-40.89
Development of North East	5,915 (0.12%)	4,479 (0.09%)	6,812 (0.13%)	15.16	-24.28
Rural development	2,65,817 (5.25%)	2,12,750 (4.29%)	2,73,108 (5.11%)	2.74	-19.96
Social welfare	60,052 (1.19%)	50,053 (1.01%)	62,362 (1.17%)	3.85	-16.65
Education	1,28,650 (2.54%)	1,21,949 (2.46%)	1,39,289 (2.60%)	8.27	-5.21
Agriculture and allied activities	1,58,838 (3.14%)	1,51,853 (3.06%)	1,62,671 (3.04%)	2.41	-4.40
Health	98,311 (1.94%)	94,625 (1.91%)	10,4599 (1.96%)	6.40	-3.75
Grand total	50,65,345 (100%)	49,64,842 (100%)	53,47,315 (100%)	5.57	-1.98

Source: BE and RE figures from Union Budget 2026.

Rising Burden on State Governments

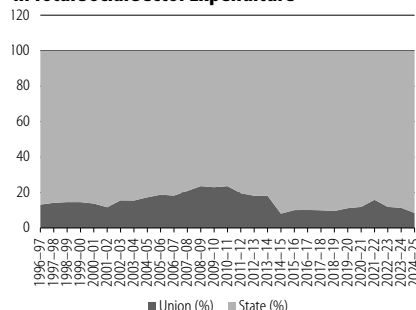
A trend in the social sector that this year's budget consolidates is that spending on welfare in India is increasingly in the domain of state governments. State governments have historically borne a greater responsibility in financing social sector schemes. Most domains in the social sector are subjects of either the concurrent list or the state list, as defined by the Seventh Schedule of the Constitution. As a result, states on average have been spending about 85% of the total public expenditure on social services in the country. However, during the mid-2000s, the role of the union government in spending on social services increased, with the state share reducing to 76.4% in 2008-09 (Figure 3). This increase in spending by the union government was

accompanied by union government legislations such as the Right to Education Act (RTE), 2009 and National Rural Employment Guarantee Act, 2005 as well as “missions” such as the Sarva Shiksha Abhiyan (SSA), 2000 and National Rural Health Mission (NRHM), 2005. In recent years, a reversal of this trend has been observed with a steep increase in the state shares to around 90% after 2014-15 (Figure 3). The reasons for such a shift can be traced to a series of reforms which shifted the burden of spending to the states.

The Fourteenth Finance Commission in 2015 recommended increasing the states' share of the divisible pool of central taxes from 32% to 42%. Such an increase in the revenue share for the states was then accompanied by a significant reduction in the union's direct contribution to centrally sponsored schemes (css). The subgroup of chief ministers

on the rationalisation of css, presented their report in 2015, which reshaped the css architecture into a framework of umbrella schemes with the sharing ratio for most major schemes standardised at 60:40 (union : states) for general category states, replacing the earlier 75:25 or 80:20 arrangements. Only a narrow set of schemes were designated as being in the “Core of the Core” category which would retain existing funding patterns. This included the MGNREGA, NSAP, and schemes for Scheduled Castes (scs), Scheduled Tribes (sts), minorities, and backward classes (NITI Aayog 2015). For the large bulk of schemes covering health, nutrition, education, rural livelihoods, and social welfare, states were now required to contribute a matching 40% from their own budgets. Therefore, while schemes such as those under the

Figure 3: Share of Union and State Governments in Total Social Sector Expenditure



Source: RBI (2026).

MGNREGA remained 100% union funded (wage component), for others such as school meals and anganwadis there was a change with the union government contributing 60%, a reduction from the earlier 75%.

These changes affected social sector budgets and schemes in several ways that are still unravelling. As seen above, the union budget's spending on social services has been consistently declining both in real terms and as a total share of total union expenditure. More detailed analysis is required to understand the ramifications for each state and scheme by considering the state allocations as well. While such an exercise is beyond the scope of this article, the fact that the union allocations in real terms have declined by over 30% for some schemes, such as the school meals and anganwadis, indicates a resource crunch on the ground. It is also accompanied by a stagnation in unit cost norms, based on which union and state allocations are made. For instance, the per capita per day expenditure norm for supplementary nutrition in anganwadis has remained the same since 2018. The union's contribution to social security pensions has also not increased since 2011 (NSAP) and the honorariums for anganwadi workers and helpers have not been revised at the union level since 2018 (Sinha 2025). These are just illustrations and such issues can be seen across the board.

Alongside reduced allocations, the schemes are over-centralised, a tendency that existed earlier but is now even more entrenched. In most schemes, the design and implementation guidelines remain in the central domain with little flexibility for state governments to make modifications, even though they are primarily

responsible for both resource allocation and implementation on the ground. Introduction of mechanisms such as mandatory e-KYC (know your customer) (for example in the public distribution system), centralised digital tools for monitoring (Poshan Tracker), mandatory facial recognition system (FRS), withholding of funds due to differences on scheme approaches (for example, Kerala and the Pradhan Mantri Schools for Rising India [PM SHRI] scheme) and direct benefit transfers (DBTs) have all reduced the policy and implementation space that state governments have to innovate and expand within the framework of the CSS.

While the states now ostensibly receive a greater share of the central pool of resources, their spending obligations under CSS have expanded in tandem. Although the Fourteenth Finance Commission recommended increasing untied transfers to enhance expenditure flexibility among states and allow them to spend resources according to their discretion and priorities, the modifications in CSS norms as discussed above led to compressing the fiscal space available for state-specific priorities. As reported by PRS Legislative Research (2025), between the Eleventh and Fourteenth Finance Commission periods, the share of untied transfers to states increased from 44% of total transfers to states to 68%. However, this declined during the Fifteenth Finance Commission (2021–26) period to 64% of the total transfers. States which were traditionally poor spenders on social services are left behind. A withdrawal of support from the union government could have had a negative effect on state allocations, especially in poorer states. While this needs further analysis, it is observed that better-off states spend higher per capita amounts on the social sector, both because of their ability to make higher allocations and their absorption capacity of union funds is better given more efficient institutions and structures.

Further, given fiscal responsibility and budget management requirements, states have very little capacity to expand allocations for social services. In 2023–24, 62% of states revenue receipts collectively are accounted for by committed expenditure—salaries, pensions, interest

payments, and subsidies—which leaves limited room for discretionary social sector investment (PRS Legislative Research 2025). The result is that even as total state budget sizes expand in nominal terms, the discretionary fiscal space available for social sector investment does not keep pace with state obligations. It is therefore necessary to look beyond the headline figures of either the union budget or aggregate state expenditure, and to examine what is actually being spent on social sector schemes—and what, in consequence, people are actually receiving.

A related issue that must be mentioned is the role of cesses and surcharges in the union government's revenue, which are not included in the pool of taxes available for devolution. The share of cesses and surcharges in gross tax revenue was around 9.2% in 2014–15 and gradually increased to 20% in 2020–21 (Fifteenth Finance Commission 2021). Over the last five years, although this share has declined to 14% in 2026–27 BE, it is still high. Further cesses and surcharges have grown in absolute terms from ₹5.7 lakh crore in FY 2025–26 REs to ₹6.05 lakh crore in FY 2026–27 BEs, a 6% increase (Pandey and Kapur 2026). While these cesses and surcharges are often collected for social services purposes like education and health, they are not part of the divisible pool and are only available for union government spending. On the other hand, the state governments in effect receive only 34% of the gross tax revenue, which is substantially below the Fourteenth Finance Commission recommendation of 42% (Sinha 2026).

Changing Welfare Regime

The focus of the union government has been more DBTs and schemes such as construction of houses and toilets rather than in expanding public services. A recent example of a shift away from a rights-based approach by the union government is the withdrawal of the MGNREGA and its replacement with the VB-G RAM G Act. While the new act uses the term “guarantee” for providing rural employment, it also puts in place a system of normative allocation of funds for states. Further, MGNREGA was one of the

core schemes with the entire wage bill being borne by the union, while the new legislation has placed employment guarantee in the 60:40 regime with states having to contribute 40% of the normative allocations which will be decided based on currently undefined “objective” criteria by the union government. Therefore, the trajectory of increasing fiscal burden on state governments with little control over the larger contours of implementation continues.

While analysing budgets for the social sector in the country, we also need to take into account the emergence of new cash transfer schemes as a popular form of welfare delivery. More than 15 states now have unconditional cash transfer schemes targeted at women, giving out ₹1,000 to ₹2,500 a month. The Sixteenth Finance Commission (2025) report highlights the high fiscal burden these schemes are already placing on strained state budgets. As states continue to expand such schemes, considering their political expediency, the years ahead will tell us what this will do to budgets for social services. One significant way in which these schemes are different from most social services is that they are currently not placed in any rights-based or constitutional framework and, on their own, do not guarantee access to basic rights such as education, health or nutrition.

Recent budgets as well as those over the next few years need to be analysed in this changing context of welfare in the country. Union Budget 2026 signals a continuation of trends that have been in motion for over a decade. Social sector allocations remain stagnant as a share of total union government expenditure, with the 18% allocated in 2026–27 reflecting no meaningful reversal of the declining priority accorded to welfare spending. The revised estimates for 2025–26 reveal a pattern of systematic underspending across social sector heads, with the largest cuts falling on precisely the programmes—rural development and social welfare—that serve the most vulnerable populations.

The structural shift in fiscal responsibilities between the union and states, accelerated by the 2015 reforms and further consolidated by this budget, has

created a situation where the union government increasingly sets the agenda while states are expected to bear the financial burden. This arrangement is now strained to the point of undermining programme delivery. With states responsible for nearly 90% of social sector spending but receiving only around 34% of total tax revenues, the transition from MGNREGA to VB-G RAM G exemplifies the contradictions of this model. It is also the case that most welfare-deficient states are also the least capable of meeting the matching contributions required to access union funds.

Addressing these structural imbalances requires more than incremental increases in nominal allocations. Increased attention and public discussion are required on revenue mobilisation for states, cost-sharing norms between states and union, accountability for underspending and the overall welfare architecture itself.

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