

Consolidation Without Redistribution: The Budget and the Remaking of the Indian State

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“India’s fiscal credibility today rests on a deliberate shift toward capital formation.” – Economic Survey 2025–26

The *Economic Survey* 2025–26 defines India’s fiscal credibility in narrow but confident terms. It emphasises a deliberate shift toward capital formation, anchored in consolidation and public investment. The *Union Budget* 2026–27 follows this script closely, presenting fiscal discipline as restored, growth as resilient, inflation as contained and capital expenditure as the primary instrument of economic policy. At first glance, the numbers appear reassuring. Yet once fiscal credibility is framed in these terms, a different set

of questions comes into surface – about redistribution, employment, and the role of public spending in a deeply unequal economy.

Those questions point not to unresolved trade-offs but to a deeper reordering of priorities. The budget does not simply respond to fiscal constraints; it codifies a governing logic prepared in advance by the *Economic Survey*. Read together, the two documents reveal not a tension between growth and welfare, but a fairly clear resolution of that tension in favour of capital accumulation, investor credibility and fiscal optics. Redistribution, employment generation and universal provisioning are not rejected outright, but they are systematically deferred, narrowed or displaced. This is the result of a deliberate formulation of what fiscal prudence means in contemporary India. Prudence is no longer understood, at least in these documents, as balancing growth with social repair in a highly unequal economy; instead, it is defined as the ability of the state to consolidate its finances while maintaining the confidence of markets, even when this entails compressing the equalising functions of public expenditure.

To understand the *Union Budget* 2026–27, therefore, it is insufficient to read allocations in isolation or to catalogue sectoral gains and losses. The budget must be read through the *Economic Survey*, which supplies the justificatory grammar that renders these choices both coherent and legitimate. Read this way, the budget appears less as a technical exercise in accounting and more as a statement about the kind of state the Indian government is preparing for the years ahead.

When Prudence Means Capital

At the heart of the *Economic Survey's* preface lies a deceptively simple claim: India's fiscal credibility rests on a "deliberate shift toward capital formation", supported by expenditure quality reforms and consolidation. This formulation is crucial. It does not merely advocate higher public investment; it redefines fiscal virtue itself. Credibility is no longer anchored in the state's capacity to meet social needs or counter inequality, but in its ability to demonstrate restraint, discipline and alignment with the requirements of capital.

The *Union Budget* 2026–27 operationalises this redefinition with remarkable consistency. The headline fiscal deficit is projected to decline further, reaching approximately 4.3 per cent of GDP. This achievement is presented as evidence of responsible governance and policy maturity. Yet beneath this headline improvement lies a more stubborn reality: the revenue deficit remains largely unchanged as a share of GDP. In other words, the state continues to spend more on its routine obligations than it earns through revenue, even as it celebrates consolidation.[1]

This asymmetry matters. A declining fiscal deficit alongside a persistent revenue deficit indicates that consolidation is being achieved not by strengthening the state's redistributive capacity, but by restraining revenue expenditure while continuing to borrow for investment. The growing burden of interest payments – now one of the single largest items in the *Union Budget*—further constrains fiscal space. Interest servicing absorbs resources that might otherwise have been deployed for health, education, nutrition or employment support, yet it is treated as a fixed obligation rather than a policy variable.

The survey's treatment of welfare spending clarifies why this trade-off is

accepted. Social transfers, particularly at the state level, are characterised as "unconditional" expenditures that risk crowding out growth-enhancing investment. This language is not incidental. By casting welfare as fiscally suspect and capital expenditure as inherently virtuous, the survey establishes a moral hierarchy within public spending. Once this hierarchy is in place, the compression of social expenditure no longer appears as a political choice; it is increasingly presented as a technical necessity. As the survey puts it: "*Rising revenue deficits and unconditional cash transfers in several States pose emerging risks by crowding out growth-enhancing spending*."

The budget follows this logic faithfully. Consolidation is pursued without addressing the structure of taxation or expanding progressive revenue sources. There is no serious attempt to mobilise resources through wealth taxation, inheritance duties or excess-profit levies. Instead, fiscal balance is maintained by containing expenditure that directly addresses inequality and vulnerability – health, education, nutrition and employment guarantees – while preserving a stable and predictable environment for capital. Simultaneously, the government avoids measures that might unsettle capital, including higher corporate taxes, wealth taxes, windfall levies or unpredictable regulatory changes, underscoring its commitment to investor confidence and market stability.

The meaning is clear: fiscal prudence has been invoked to put capital first. In effect, prudence is transformed from a tool of social balancing into an instrument of selective discipline – one that reassures markets even as it leaves structural social deficits unresolved. The budget thus signifies not only restraint, but a shift in the fundamental standards by which state responsibility is now evaluated.

Borrowing Without Delivery

One of the most striking features of the *Union Budget* 2026–27 is the paradox at the heart of its social spending outcomes. Government borrowing continues to rise, yet public expenditure is becoming less effective in delivering welfare gains. Interest payments alone now absorb over ₹14 lakh crore (around USD 155 billion), constraining the fiscal space available for social security and employment generation. In official and mainstream discourse, the widening gap between increased public spending and limited welfare outcomes is often framed as an efficiency problem – attributed to leakages, implementation failures or state capacity constraints. A closer reading of the *Economic Survey*, however, suggests that this paradox is neither accidental nor primarily administrative. It is structural.

The survey repeatedly asserts that borrowing is justified when it finances "growth-enhancing" expenditure, particularly capital formation. This distinction between productive and unproductive spending underpins the budget's sharp emphasis on effective capital expenditure, which rises substantially in 2026–27. Roads, railways, defence, digital infrastructure, and energy continue to command priority, while revenue expenditure grows more slowly and declines as a share of total spending.

What matters here is not simply the scale of capital expenditure, but its composition and distributional profile. Much of the increase is concentrated in capital-intensive sectors with relatively weak employment multipliers. While infrastructure investment of this kind may raise potential output over the long term, it does little to address immediate demand shortfalls in an economy marked by wage stagnation, informalisation and high inequality. In such

conditions, borrowing that bypasses mass consumption and employment channels generates growth without social traction.

The budget's treatment of employment-linked expenditure illustrates this logic clearly. Spending on schemes that directly support incomes and livelihoods – most notably demand-driven employment programmes such as rural public works – is increasingly subsumed under capital asset creation, on the grounds that such schemes generate infrastructure. In practice, this accounting move allows employment and income-support programmes to be presented as investment spending, enabling the government to highlight rising capital expenditure while keeping job guarantees capped and contingent. Borrowing is thus formally tied to capital formation, even when the primary function of such spending remains social protection.

The result is a growing disconnection between borrowing and welfare delivery. Public debt is on the rise,[2] yet its distributive impact is steadily diminishing. This helps to explain why increased public spending has not translated into proportional improvements in nutrition, healthcare access, educational outcomes or employmentsecurity. The concern, in other words, is not that borrowing is excessive, but that it is channelled through a fiscal philosophy that consistently favours capital over consumption and employment.

In a more equal economy, strong private demand might partially offset this bias. In India's context, however – where inequality suppresses consumption at the bottom and middle of the income distribution – the effects are far more severe. Borrowing that does not circulate among those most likely to spend quickly loses its stabilising function. What remains is growth that is

measurable in aggregate terms, but brittle in its social foundations – a fragility that is largely absent from headline indicators.

The budget, in this sense, does not abandon welfare altogether, even as borrowing increases. Rather, the scale and effectiveness of welfare provision are diminished by how and where that borrowing is deployed. This dynamic reveals the political economy operating beneath the arithmetic.

Nowhere is this displacement of fiscal responsibility more visible than in the treatment of employment.

Employment Without a Budget

Few themes attract as much rhetorical attention – and as little direct fiscal commitment – as employment. The *Economic Survey* 2025–26 identifies job creation as a critical challenge, particularly for a young and expanding workforce. Yet the framing of employment effectively detaches it from the core responsibilities of macroeconomic policy.

The survey's narrative on employment reflects a prevailing market-oriented reform framework, in which job creation is expected to arise indirectly from skills, incentives and labour-market flexibility rather than from direct fiscal intervention. Employment outcomes are thus said to hinge on employability and productivity, while structural reforms – especially the implementation of labour codes[3] —are presented as the principal instruments of job creation. The underlying assumption is that, once regulatory rigidities are eased and productivity improves, employment will naturally follow from economic growth. India's recent experience, however, offers little support for this

proposition. Despite sustained periods of GDP growth averaging around 7 per cent in the post-pandemic years, employment growth has remained weak, with multiple estimates indicating that employment elasticity has fallen well below 0.3 – suggesting that output expansion has translated into only marginal job creation.[4] In practice, this is visible in district-level employment demand data, where unmet demand persists even in years of headline growth. Productivity gains have been concentrated in capital-intensive sectors with limited employment absorption, while wage growth has lagged behind output growth. In such a context, growth does not automatically translate into broad-based employment; without deliberate fiscal intervention, it can coexist with jobless expansion and rising insecurity.

The *Union Budget* 2026–27 reflects this assumption in its allocations. The Ministry of Labour and Employment commands a modest share of total expenditure, particularly when compared to infrastructure-heavy ministries. There is no large-scale fiscal or policy push explicitly aimed at employment generation, nor any counter-cyclical expansion of job guarantees in response to widespread labour-market distress. Instead, employment programmes increasingly operate through mission-mode frameworks under the *Viksit Bharat – Rozgar and Ajeevika Mission*, moving away from a demand-driven entitlement toward administratively mediated and fiscally capped provisioning aligned with asset creation and livelihood objectives.

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This design choice is revealing. Employment is acknowledged rhetorically but marginalised fiscally, treated as a derivative outcome of growth rather than as

a policy objective in its own right. The budget, while recognising the problem of joblessness and precarity, declines to assume direct responsibility for resolving it through public expenditure. The broader fiscal strategy amplifies the consequences of this stance. Together, capital-intensive investment, labour-market flexibilisation and restrained revenue spending produce a growth path that is weakly employment-intensive. The jobs that do emerge are often informal, insecure or poorly paid, reinforcing the very inequalities that suppress demand.

In effect, the state repositions itself as a weak enabler rather than an employer, a reluctant facilitator rather than a guarantor. This shift may align with a particular vision of market-led development, but it also marks a retreat from the historical role of public finance in absorbing labour during periods of structural transition. In a country where the private sector has consistently failed to generate sufficient quality employment, this retreat carries significant social risk.

Employment without a budget, therefore, is not an oversight but a policy position – one that relocates job creation from the fiscal domain to the terrain of reforms and individual adaptation, completing the survey's reframing of employment as a problem to be managed indirectly rather than solved collectively. While the government can point to the existence of employment schemes, the absence of a clear fiscal commitment to job creation as a macroeconomic objective remains a central constraint. Employment-related spending continues to be capped, administratively mediated, and fiscally hedged rather than scaled up in response to labour-market stress. This asymmetry is evident in the relative scale of allocations: in 2026–27, the Ministry of Labour and Employment receives just over ₹32,000 crore (about

USD 3.5–4 billion), compared to nearly ₹17 lakh crore (approximately USD 190 billion) committed to capital expenditure and more than ₹14 lakh crore devoted to interest payments alone.[5]

The consequences of this employment strategy are not confined to the labour market; they are central to how inequality is reproduced and normalised within the fiscal framework itself.

Inequality as Given

Inequality of income, wealth, access, and opportunity, is treated not as a central policy problem demanding fiscal correction, but as a background condition to be managed through access, participation and individual capability, thereby depoliticised and detached from the fiscal framework that actively shapes it. The *Economic Survey's* view on social progress is revealing in this respect. While it acknowledges that "poverty and inequality are important issues for any developing country," its assessment framework is anchored primarily in benchmarks of poverty reduction, deprivation and access to basic services.[6] Inequality is conceptualised largely in terms of "equality of opportunity" rather than outcomes, with social mobility framed as an economic imperative because it "maximises the utilisation of individual skills."[7] When distributional concerns do surface, they are channelled through the language of participation, productivity, and state capacity rather than fiscal redistribution or wealth concentration.

The budget reflects this framing with precision. On the revenue side, there is no serious effort to expand progressive taxation. On the revenue side, the tax structure remains firmly non-progressive, with no attempt to mobilise wealth

or excess profits. Individuals continue to shoulder a disproportionate share of the tax burden, particularly through indirect taxes that weigh more heavily on lower and middle-income households.

On the expenditure side, the state deliberately restricts its equalising role. Health and education spending rises in nominal terms but fails to scale with population needs, rising costs, or the deepening privatisation of access. Social protection schemes remain targeted, capped and frequently underfunded in revised estimates. Redistribution, in short, is not absent, but residual.

This matters because inequality is not a neutral backdrop. In a highly unequal society, constrained social spending reshapes life chances by shifting access to healthcare, education, housing, and employment increasingly toward private purchasing power. Public provision ceases to function as a universal floor and instead operates as a narrow safety net, leaving large sections of the population exposed to market volatility.

By treating inequality as given, the budget plays an active role in reproducing it. Fiscal prudence becomes compatible with deep social divergence precisely because redistribution is no longer treated as a core function of the state. Stability is preserved, but at the cost of widening structural divides.

Federalism as Risk Transfer

The Centre’s own spending choices do not exhaust the reconfiguration of redistribution. It is also embedded in the evolving relationship between the Union and the states. The *Economic Survey* expresses explicit concern about state-level fiscal behaviour, particularly what it describes as populist spending

and unconditional transfers, framing these as risks not only to state finances but also to sovereign borrowing costs and macroeconomic credibility.

The *Union Budget* 2026–27 translates this concern into a distinctive pattern of federal transfers. While aggregate transfers to states increase, their composition shifts decisively. Capital investment loans, conditional grants and scheme-tied assistance expand, while unconditional transfers and flexible social spending space remain constrained. Fluctuations in Finance Commission grants weaken their stabilising role.

This structure has clear implications. States are encouraged, indeed pressured, to prioritise capital expenditure aligned with national objectives, even as they retain primary responsibility for health, education, nutrition and social protection. Welfare delivery is decentralised without a commensurate expansion of fiscal autonomy or capacity. The Union government consolidates its balance sheet while states absorb the social pressures generated by inequality, unemployment and rising costs of living.

As a result, the geography of inequality becomes more pronounced. States with stronger revenue bases are better positioned to supplement central schemes and sustain public services, while poorer states, more dependent on transfers and facing greater social need, are constrained by tighter conditionalities and reduced fiscal autonomy. Regional disparities are thus intensified not as an accidental outcome, but as a predictable consequence of fiscal design.

Federalism, in this configuration, comes to operate less as a system of shared responsibility and more as a mechanism for risk displacement. Social

obligations are devolved, but fiscal discretion is not. The budget reassigns the burden of redistribution downward even as it retains control over the overall fiscal narrative. This reconfiguration of centre–state relations is not merely a question of fiscal federalism; it is central to the kind of state the current budgetary framework is actively constructing.

The Capital-Disciplined State

Taken together, the *Economic Survey* and the *Union Budget* 2026–27 do more than outline a year's economic strategy; they consolidate a particular form of the Indian state being normalised for the long term. The result is a state that prioritises capital accumulation over social balance, treats employment as an indirect outcome rather than a fiscal responsibility, assumes inequality rather than actively correcting it and manages redistribution through displacement rather than expansion. By displacement, it means not stopping redistribution, but moving it – from central government funding to specific programmes, from guaranteed benefits to targeted assistance and from direct public services to responsibilities managed by the state and driven by growth.

It is a state that seeks credibility primarily in the eyes of markets, investors and rating agencies by narrowing its own equalising functions. Public investment is elevated, but public provisioning is restrained. Fiscal consolidation is celebrated, while revenue mobilisation remains politically cautious. Welfare is acknowledged, but persistently deferred.

Crucially, this transformation is not presented as austerity. There are no dramatic cuts, no overt retrenchment, and no rhetorical embrace of rollback. Instead, change proceeds incrementally and technically, through

classifications, ceilings, conditionalities, and silences. The budget does not announce a retreat from redistribution; it renders redistribution increasingly peripheral. What emerges is a capital-disciplined, welfare-light state; one that governs inequality rather than confronts it and manages social stress through containment rather than repair.

The Long Shadow of Consolidation

Budgets are often judged by what they promise to deliver in the coming year. The more consequential question, however, is what they make normal over time. The *Union Budget* 2026–27 normalises a conception of fiscal responsibility in which redistribution is no longer central to economic governance, employment is no longer a direct public obligation and inequality is no longer treated as a fiscal emergency.

This shift carries long-term implications. A growth strategy that remains weakly employment-intensive in a highly unequal society risks eroding social cohesion and democratic legitimacy. A fiscal state that prioritises consolidation without redistribution may stabilise aggregates while destabilising everyday living conditions. Over time, the distance between macroeconomic success and economic security is likely to widen.

The budget does not foreclose alternative paths; it signals which paths the state is currently unwilling to take. Together with the *Economic Survey*, what becomes visible is not confusion or contradiction but coherence, rooted in a deliberate reordering of priorities.

Budgets do not merely allocate resources; they also allocate responsibility,

often in ways that are less visible but more durable. The *Union Budget* 2026–27 makes clear which responsibilities the Indian state is willing to retain and which it is gradually releasing.

* *USD equivalents at ₹90/USD*

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1 Source: *Union Budget 2026–27, Deficit Statistics, Budget at a Glance.*

2 In absolute terms, Union government borrowing has continued to rise despite fiscal consolidation in ratio terms. The fiscal deficit for 2026–27 is budgeted at ₹16.96 lakh crore (**roughly USD 190 billion**), while total debt receipts (net) amount to ₹16.63 lakh crore. Outstanding liabilities of the Union government are projected to remain above 56% of GDP in 2026–27, reflecting a sustained increase in public debt since the pandemic period.
Source: Union Budget 2026–27, Deficit Statistics; Budget at a Glance.

3 India's Labour Codes consolidate 29 labour laws into four, marking a decisive rollback of worker protections in the name of "reform." They weaken the right to association by tightening union recognition norms, restrict the right to strike through expanded notice requirements and procedural hurdles, and dilute collective bargaining. Thresholds for layoffs, retrenchment, and factory closures are raised, giving employers greater freedom to hire and fire. Inspection regimes are weakened, and enforcement is shifted toward self-certification. While the codes promise expanded social security, coverage remains contingent on rules and funding that are often absent. Presented as

necessary for investment and growth, the labour codes reframe employment as a market outcome rather than a social right, subordinating labour to capital and dismantling the institutional basis of worker power.

4 Estimates of employment elasticity in recent years suggest a weak relationship between output growth and job creation. See, for instance, Reserve Bank of India, “Employment Dynamics in India”, RBI Bulletin, various issues; Economic Survey of India (various years), chapters on labour markets and growth. PLFS-based studies consistently indicate employment elasticity well below 0.3 in the post-2010 period, particularly in manufacturing and formal-sector employment.

5 *Source: Union Budget 2026–27, Budget at a Glance and Expenditure Budget (Statement of Budget Estimates), Ministry of Finance, Government of India. Available at https://www.indiabudget.gov.in/*

6 Economic Survey 2025–26, Chapter 13: *Rural Development and Social Progress*

7 Ibid.

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