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**EDITORIAL ANALYSIS**

# Cash Transfers: Safety Net and Fiscal Trade-off

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CURATED &amp; WRITTEN BY

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## THE LIFT LINE

A cash transfer can cushion a household through a hard year, but it cannot manufacture the income that would make the next year less hard, and no state can borrow its way out of that difference forever.

## WHY THIS EDITORIAL MATTERS FOR YOUR EXAM

State cash-transfer schemes, especially direct income transfers to women, have expanded rapidly across India and become a live test of the trade-off between welfare and fiscal sustainability. For the exam this is the sharpest current case on the “freebies versus welfare” debate, state finances and the crowding-out of capital expenditure.

**GS Paper 3:** government budgeting; issues relating to the mobilisation of resources; inclusive growth; the fiscal framework.

**GS Paper 2:** welfare schemes for vulnerable sections and their performance; issues relating to poverty and hunger; the mechanisms of the Union-State fiscal relationship.

For **Prelims**, carry the anchors: 12 states running unconditional cash-transfer schemes to women in 2025-26 with a cumulative budget of Rs 1,68,040 crore (RBI State Finances study), the DBT and JAM delivery rail, and the FRBM framework. For **Mains**, argue how to keep the safety-net value while protecting fiscal space for growth-creating spending.

## BACKGROUND AND CONTEXT

Direct income transfers to women, delivered through the JAM trinity (Jan Dhan, Aadhaar, Mobile) and the Direct Benefit Transfer (DBT) rail, have spread across states. The Reserve Bank’s “State Finances: A Study of Budgets of 2025-26” records that 12 states run unconditional cash-transfer schemes to women in 2025-26,

together budgeting Rs 1,68,040 crore. Prominent examples include Maharashtra's Ladki Bahin (Rs 1,500), Madhya Pradesh's Ladli Bahana (Rs 1,250), Karnataka's Gruha Lakshmi (Rs 2,000), West Bengal's Lakshmir Bhandar (Rs 1,000) and Tamil Nadu's Kalaignar Magalir (Rs 1,000).

The fiscal counterpart is rising borrowing. States raised Rs 12.76 trillion through State Government Securities in FY26, up from Rs 10.73 trillion in FY25, a gross rise of about 19 per cent, roughly a fifth, as these schemes expanded. States' budgeted gross [fiscal deficit](https://ujjiyari.com/terms/fiscal-deficit/) is around 3.3 per cent of GDP for 2025-26, with market borrowings financing about 76 per cent of that deficit.

## THE CORE ARGUMENT / ISSUE

### The safety net is real and valuable

Cash transfers put money directly in women's hands, strengthening agency and cushioning household consumption through shocks. They reach the poor with low leakage on the DBT rail, and by design they support demand when private incomes are weak. Dismissing them wholesale as "freebies" misreads their genuine welfare function.

### But the fiscal arithmetic is tightening

The concern is sustainability, not intent. Six of the twelve states running these schemes already have a revenue deficit; Karnataka, for instance, flips from a small revenue surplus to a revenue deficit once these transfers are counted. With [committed expenditure](https://ujjiyari.com/terms/committed-expenditure/), salaries, pensions and interest, already near 50 per cent of revenue receipts, a large recurring transfer competes directly with everything else a state must fund.

DIMENSION	THE SAFETY-NET SIDE	THE FISCAL TRADE-OFF SIDE
Households	Cushions consumption, adds agency	Cannot replace sustained income growth
State budgets	Low-leakage DBT delivery	6 of 12 states in revenue deficit
Borrowing	Finances the gap short-term	SGS up ~19% (Rs 12.76 tn) in FY26
Capital spending	Demand support today	Risk of crowding out capex tomorrow

### The crowding-out risk is the crux

A rupee committed to a recurring transfer is a rupee not available for **capital expenditure**, roads, irrigation, health and education infrastructure, the spending that raises future income. Cash transfers cushion consumption in the short term, but they cannot substitute for stronger, sustained income growth and job creation. If transfers crowd out capex, they can trap a state in a cycle where it must keep transferring because it never built the capacity for households to earn more.

## HOW TO THINK ABOUT THIS (ANALYTICAL FRAME)

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Separate **consumption support** from **income creation**. Consumption support smooths the present; income creation raises the future baseline. A safety net is a floor, not a ladder. The right question about any transfer is not “welfare or freebie” but “does the state also fund the ladder that would eventually make the floor less crowded”. The fiscal test follows: a transfer financed by squeezing capital expenditure weakens the very growth that would make it affordable, whereas a transfer paired with sustained capex can be a bridge rather than a trap.

## THE DIAGRAM IN WORDS

State cash transfers to women (12 states, Rs 1.68 lakh crore) -> cushioned consumption + agency (safety net) BUT financed by rising borrowing (SGS +~19%, Rs 12.76 tn) -> 6 of 12 states in revenue deficit, committed spend ~50% of revenue -> risk: transfers crowd out capital expenditure -> weaker future income growth -> [resolution] pair transfers with capex and jobs, keep within FRBM, so the net is a bridge not a trap

## WAY FORWARD

- 1 **Protect capital expenditure.** Ring-fence a floor for growth-creating capex so recurring transfers do not crowd it out.
- 2 **Anchor to the FRBM path.** Keep schemes within a credible fiscal-responsibility framework and be transparent about their revenue-account impact.
- 3 **Target and rationalise.** Improve targeting so transfers reach those who most need them, releasing space for other priorities.
- 4 **Pair cash with capability.** Link transfers to skilling, jobs and local economic infrastructure so households can graduate to earned income.

## PYQ LINKAGE AND PRACTICE

UPSC has asked about the “freebies versus welfare” debate, about the significance and challenges of Direct Benefit Transfer, and about state finances and fiscal responsibility. This editorial ties those to the current cash-transfer surge.

**Practice question:** “Direct income transfers to women are a valuable safety net but pose a fiscal-sustainability challenge for states.” Critically examine, and suggest how states can reconcile welfare with fiscal prudence. (250 words, 15 marks)

Sources: *The Indian Express* (<https://indianexpress.com/section/opinion/>)

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