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EDITORIAL ANALYSIS

The 60:40 Dilemma: MGNREGA's Successor Scheme and the New Test of Cooperative Federalism

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INTERVIEW ANGLE

"When a state government's budget behaviour contradicts its own floor speeches, which one tells you more about that state's actual priorities, the speech or the allocation?"

Every fact web-verified against primary sources

THE LIFT LINE

States said the Centre had broken a two-decade promise. Then, in the same budget speeches that said so, most of them wrote the cheque anyway.

WHY THIS EDITORIAL MATTERS FOR YOUR EXAM

Cooperative federalism answers usually stop at describing a dispute, the Centre changed a funding formula, states objected. This editorial supplies the harder, more testable layer: what a state actually does with its own money often reveals its real position more precisely than what it says on the floor of the Assembly. A strong answer treats budget speeches and budget allocations as two separate data points and asks what the gap between them means.

GS Paper 2: Centre-state relations; issues and challenges pertaining to the federal structure; devolution of powers and finances up to local levels; centrally sponsored schemes and cost-sharing patterns.

GS Paper 3: Government Budgeting; employment generation; inclusive growth and issues arising from it; poverty and hunger.

CONCEPT	MEANING	WHY IT IS TESTABLE
VB-G RAM-G	Viksit Bharat - Guarantee for Rozgar and Aajeevika Mission (Gramin), the renamed successor to MGNREGA, in force nationwide from 1 July 2026	Directly examinable as the current name and legal identity of India's flagship rural jobs scheme
60:40 funding split	The new Centre-state wage cost-sharing ratio for most states under the renamed scheme, replacing full Central funding	The scheme's most consequential fiscal change, testable in isolation
90:10 formula	The preferential Centre-state split retained for Himalayan and Northeastern states	Tests attention to exceptions, a recurring UPSC trap
Centrally sponsored scheme (CSS)	A scheme designed by the Centre but implemented jointly with states, involving a defined cost-sharing ratio	The broader category this episode is a live example of
NREGA wage floor effect	The informal minimum-wage function the guaranteed NREGA wage performs in rural labour markets	Explains the "economic" dimension of state opposition beyond politics

BACKGROUND AND CONTEXT

The **Mahatma Gandhi National Rural Employment Guarantee Act, 2005**, gave rural households a legal right to 100 days of guaranteed wage employment a year; the scheme itself was launched in **2006** under the UPA government and continued under successive NDA governments. For nearly twenty years the defining fiscal feature of the scheme was that the Union government bore the entire wage cost, regardless of which party governed a state.

In 2026, the scheme was renamed **Viksit Bharat - Guarantee for Rozgar and Aajeevika Mission (Gramin)**, commonly referred to as **VB-G RAM-G**, and came into force nationwide from **1 July 2026** after Parliament passed the enabling legislation in the 2025 winter session. Alongside the rename came the first structural funding change in the scheme's history: a **60:40 Centre-state cost split** for most states, a more favourable **90:10 split** for Himalayan and Northeastern states, and continued full Central funding only for Union Territories without a legislature.

The change triggered visible political resistance in Opposition-ruled states through their 2026 budget sessions. Telangana's Deputy Chief Minister and Finance Minister **Mallu Bhatti Vikramarka** called the scheme an "employment right" in his March 2026 Budget speech. Then Karnataka Chief Minister **Siddaramaiah**, who also held the Finance portfolio before being succeeded by **D.K. Shivakumar** in June 2026, threatened "legal measures" to protect what he called the "rights of rural workers" and "decentralised governance." Kerala, under its new Chief Minister **V.D. Satheesan** following the Congress-led UDF's 2026 Assembly election win that ended over a decade of CPI(M)-led LDF rule, and Punjab, Tamil Nadu and Jharkhand raised similar objections.

Yet the same states' 2026-27 budget documents show most of them funding close to their full 40% share. Tamil Nadu's newly formed TVK government, in Finance Minister **N. Marie Wilson's** maiden budget speech on 5 August 2026, allocated an amount matching almost exactly 40% of the state's total scheme outlay, and separately committed additional funds to provide 150 guaranteed workdays rather than the scheme's own 125-day upper limit under the revised design.

THE ANALYSIS

1. The funding change is a genuine, not cosmetic, structural shift. Two decades of full Central funding created a settled fiscal expectation that no state, regardless of party, had to budget for rural employment wages. Ending that convention, even with a relatively generous 60:40 split, changes state fiscal planning in a way a mere rename would not.

2. The states' opposition is real, but so is their compliance, and both can be true simultaneously. A Finance Minister can genuinely object to a funding change on process grounds, insufficient consultation, timing, precedent, while still choosing to fund the scheme fully because the political cost of visible rural job losses is higher than the fiscal cost of finding the extra 40%.

3. The gap between speech and allocation is itself the most useful data point. When a state's Finance Minister condemns a policy in a floor speech and then allocates funds consistent with full compliance in the very same budget, the allocation is the more reliable signal of the state's actual constraint, since budget numbers are harder to reverse quietly than rhetoric.

4. Tamil Nadu's decision to exceed the scheme, funding 150 days against a 125-day design, is the clearest evidence that objection to the funding mechanism is separate from belief in the scheme's value. A state unwilling to fund an unwanted programme does not typically choose to fund it beyond requirement at additional own-cost.

5. Kerala and Himachal's partial funding needs a more careful read than "non-compliance." Both states are new or recently reconstituted governments managing transition-year fiscal planning, Kerala under a UDF government that took office only in May 2026; a shortfall in year one of a changed formula is different in kind from a sustained multi-year refusal, and the editorial itself expects both states to close the gap within the year.

6. The counter-argument matters: compliance under fiscal duress is not the same as consent to process. States can rationally fund a scheme they consider poorly negotiated if the alternative, visible rural distress, is politically worse; this does not settle whether the Centre's process for changing a two-decade cost-sharing convention was itself procedurally sound.

7. The episode is a live test of cooperative federalism's actual mechanism. Cooperative federalism is often discussed as a constitutional ideal; this episode shows it functioning, imperfectly, as a bargaining process where states use budget-speech rhetoric as leverage for future consultation while treating the substantive programme as non-negotiable in practice.

DATA AND INSTITUTIONS VAULT

PRELIMS-GRADE FACTS:

Mahatma Gandhi National Rural Employment Guarantee Act: enacted 2005; scheme launched 2006

VB-G RAM-G: Viksit Bharat - Guarantee for Rozgar and Aajeevika Mission (Gramin), renamed successor scheme, nationwide effect from 1 July 2026

Funding split: 60:40 (Centre:state) for most states; 90:10 for Himalayan and Northeastern states; full Central funding for Union Territories without a legislature

Tamil Nadu: FM N. Marie Wilson, TVK government (won the 2026 Assembly election, ending DMK-led rule), maiden Budget presented 5 August 2026; committed to 150 guaranteed workdays, 25 beyond the scheme's design, at additional state cost

Karnataka: current CM D.K. Shivakumar (since June 2026); FY26-27 budget allocation attributed to then-CM and Finance Minister Siddaramaiah

Telangana: Deputy CM and Finance Minister Mallu Bhatti Vikramarka

Kerala: CM V.D. Satheesan, Congress-led UDF, took office 18 May 2026, ending a decade of CPI(M)-led LDF rule

EAM-level federalism concept for comparison: this is a Centre-state fiscal federalism dispute, distinct from the Finance Commission's tax-devolution formula, though both concern the vertical distribution of resources between Centre and states

do not write that "MGNREGA was scrapped" or "MGNREGA funding was cut." The scheme continues under a new name and, per the states' own budget allocations, remains fully funded in aggregate; what changed is the source of 40% of that funding, not the scheme's existence or its guarantee.

THE DEBATE

Argument FOR reading this as a federalism win for the Centre. States that loudly opposed the funding change have, almost without exception, budgeted their full share, and Tamil Nadu has gone further than required. This suggests the Centre correctly judged that no state would risk the political cost of underfunding rural employment, making the funding change a low-risk move that achieves fiscal burden-sharing without triggering the programme failure critics predicted.

Argument AGAINST treating compliance as validation. States funding a scheme under political duress is not the same as states endorsing the process by which the funding change was made. A Centre that can alter a two-decade-old cost-sharing convention for a scheme this large without a negotiated transition, and rely on states' unwillingness to risk rural distress to guarantee compliance, is setting a precedent that could be extended to other centrally sponsored schemes with less benign results if states ever do choose to under-fund a less politically visible programme.

Balanced verdict. Both states and the Centre are behaving rationally within a system that lacks a formal, binding consultation mechanism for changing CSS funding ratios. The scheme's substance survives because both sides value it; the process by which the change was made remains contested and untested as a precedent. The prudent reading is that this episode is evidence cooperative federalism can absorb a significant fiscal shock without programme collapse, not evidence that the process used to deliver that shock should become the template for future changes.

HOW TO THINK ABOUT THIS

The transferable pattern: **when a government's stated position and its budgeted position diverge, treat the budget as the true revealed preference, and ask what political cost made the rhetoric necessary even though the money still moved.**

Political actors frequently object publicly to a policy for reasons of process, timing or precedent while privately concluding that the policy's substance cannot be safely opposed. The tell is not the speech, it is the allocation, the vote, the ministerial order that follows the speech. An aspirant who can separate "position on process" from "position on substance" reads Indian federal politics with far more precision than one who takes floor speeches as a state's final word.

This same structure recurs whenever a Centrally sponsored scheme's cost-sharing formula changes, in disputes over GST compensation cess extension, in states' objections to conditions attached to Finance Commission grants, and in state governments that criticise a Union scheme in the Assembly while implementing it without visible delay at the district level. In each case, the implementation record, not the speech record, is the more reliable evidence of a government's actual priorities.

DIAGRAM-IN-WORDS

MGNREGA becomes VB-G RAM-G: rhetoric versus allocation

2006–2026 · MGNREGA / NREGA
100% wage cost borne by the Centre

↓

2026 · renamed VB-G RAM-G
60:40 most states · 90:10 Himalayan/NE · 100% for UTs
nationwide effect from 1 July 2026

↓

Opposition-state response: two tracks

Track 1: rhetoric
condemned as centralising, in speeches

Track 2: allocation
budgets show near-full 40% funding

The revealed preference
speech opposes the mechanism, allocation confirms the substance

↓

States treat rhetoric as leverage
while funding the rural employment guarantee as non-negotiable

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Telangana calls it an imposition and Karnataka threatens legal recourse, yet Tamil Nadu, Karnataka, Telangana and Jharkhand have all funded close to their full 40% state share. The complaint is about who pays, not whether the guarantee survives.

TAKEAWAY BOX

A budget speech is a state's opening position. A budget allocation is its actual constraint. When the two disagree, trust the number.

MGNREGA Act, 2005, *scheme launched* **2006**; *renamed* **VB-G RAM-G (Viksit Bharat - Guarantee for Rozgar and Aajeevika Mission, Gramin)**, *nationwide from* **1 July 2026**; *funding split* **60:40** *(most states),* **90:10** *(Himalayan/NE states); Tamil Nadu's* **TVK government** *and FM* **N. Marie Wilson**; *Karnataka CM* **D.K. Shivakumar** *(since June 2026, succeeding Siddaramaiah); Kerala CM* **V.D. Satheesan** *(since May 2026).*

is it good governance or political theatre for a state to publicly condemn a funding formula while privately budgeting full compliance, and does the answer change depending on whether the state's objection is about process or about substance?

UPSC has repeatedly tested Centre-state financial relations, the changing nature of centrally sponsored schemes, and cooperative versus competitive federalism; this editorial supplies a live, dated case study where rhetoric and fiscal behaviour visibly diverge, useful for any answer requiring a contemporary illustration.

"States often oppose a Central policy in political rhetoric while complying with it in fiscal practice." Discuss with reference to the 2026 funding restructuring of India's rural employment guarantee scheme.

Sources: Financial Express, Business Standard, PIB, News on Air

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Source: The 60:40 Dilemma: MGNREGA's Successor Scheme and the New Test of Cooperative Federalism — Ujiyari.com | Free UPSC & State PCS Editorial Analysis

KEY ARGUMENTS AT A GLANCE

Financial Express argues that the political theatre around the Centre's new 60:40 Centre-state funding split for the rural employment guarantee scheme, now VB-G RAM-G, conceals a more revealing fact: Opposition-ruled states that condemned the change in budget speeches and threatened legal recourse have gone on to budget close to their full 40% share anyway, showing that the scheme's proven value to rural wage security outweighs the states' political objection to how it is now funded.

✓ SUPPORTING

- The funding change is a genuine structural shift, not a minor adjustment: for nearly two decades, from the scheme's 2006 launch under the Mahatma Gandhi National Rural Employment Guarantee Act, 2005, through both UPA and NDA governments, the Centre bore the full wage cost, and the move to a 60:40 split (90:10 for Himalayan and Northeastern states) under the renamed Viksit Bharat scheme ends that convention for the first time in the programme's history.
- The opposition is multidimensional rather than merely partisan: political because the scheme is identified with the Congress-led UPA, social because it is a livelihood floor for rural workers with no other employment option, economic because the NREGA wage functions as an informal minimum wage that job-card holders use to refuse under-paid work, and fiscal because states already operating under tight budget constraints must now find new headroom.
- Despite the opposition, budget documents from Tamil Nadu, Karnataka, Telangana and Jharkhand show these states providing at or near their full 40% share for 2026-27, with Tamil Nadu's newly elected TVK government going further and committing to fund 150 guaranteed days, 25 more than the scheme provides, at its own additional cost, which is difficult to reconcile with the states' own rhetoric of principled refusal.
- States that have under-provided so far, Kerala at roughly 27% of its required share and Himachal Pradesh at roughly 4% against its required 10%, are the exception rather than the rule, and Financial Express notes it is 'pretty certain' these states will top up their contribution during the financial year, suggesting even partial non-compliance is a timing gap rather than a permanent refusal.

⚠ COUNTER

Budgeting a share is not the same as having no legitimate federalism grievance: fiscally stressed states can be forced by political necessity, avoiding blame for job losses ahead of elections, into funding a scheme they still believe was imposed without adequate consultation, and compliance under duress does not retroactively validate the process by which the Centre changed a two-decade-old funding convention without what several states describe as genuine negotiation.

→ **WAY FORWARD**

A durable fix requires separating the funding-formula debate from the scheme's substance: the Centre could institutionalise a Finance Commission-style consultative mechanism before altering any centrally sponsored scheme's cost-sharing ratio, phase in co-funding changes over multiple years rather than a single budget cycle to let states plan revenue mobilisation, and publish a transparent, jointly agreed formula for how the 90:10 exception for Himalayan and Northeastern states is determined, so that future funding-pattern changes are negotiated rather than announced and then absorbed under protest.

MAINS ANSWER FRAMEWORK

QUESTION

The Centre's decision to require states to co-fund 40% of the rural employment guarantee scheme, previously fully Centre-funded, has drawn strong political opposition even from states that have gone on to fully budget their share. Examine the fiscal federalism issues this raises, and discuss whether the episode strengthens or weakens the case for cooperative federalism in India. (250 words)

INTRODUCTION

For nearly two decades, the rural employment guarantee scheme launched under the Mahatma Gandhi National Rural Employment Guarantee Act, 2005, was funded entirely by the Union government, first under the UPA that created it in 2006, then under successive NDA governments. In 2026, the scheme was renamed Viksit Bharat - Guarantee for Rozgar and Aajeevika Mission (Gramin) and, for the first time, states were required to fund 40% of wage costs themselves, a change Opposition-ruled states condemned as an attack on cooperative federalism even as most of them went on to budget their full share.

BODY

The funding change is real and structurally significant: a flat 60:40 Centre-state split applies to most states, 90:10 to Himalayan and Northeastern states, and full Central funding continues only for Union Territories without a legislature. Finance Ministers of Opposition-ruled Karnataka, Kerala, Telangana, Punjab, Tamil Nadu and Jharkhand objected in budget speeches through 2026, framing the scheme as an 'employment right' (Telangana), and threatening legal recourse to protect 'decentralised governance' (then Karnataka Chief Minister Siddaramaiah, since succeeded by D.K. Shivakumar in June 2026).
Yet budget allocations tell a different story: Tamil Nadu's newly elected TVK government under Finance Minister N. Marie Wilson budgeted an amount matching almost exactly 40% of its total scheme outlay for 2026-27, and went further by committing to fund 150 guaranteed workdays, 25 beyond the scheme's own provision, at additional state cost. Karnataka, Telangana and Jharkhand show a similar pattern of near-complete compliance.
Only Kerala under new Chief Minister V.D. Satheesan and Himachal Pradesh have under-provided so far, and even there, the shortfall appears to be a timing gap within the financial year rather than a refusal. The gap between political rhetoric and fiscal behaviour is the editorial's central evidence: states object to how the scheme is funded but will not risk withdrawing from it, because collapsing rural wage security carries a political cost that dwarfs the cost of finding an additional 40%.

CONCLUSION

The episode is best read as a case where genuine federalism friction, over process, consultation and the abruptness of a two-decade-old funding convention being altered, coexists with a shared, undisputed judgment by Centre and states alike that the scheme's substance must survive. States are using the language of federalism as leverage in a negotiation over process while treating the outcome, continued rural employment guarantee, as non-negotiable.

Going forward, the more durable answer than a return to full Central funding is a consultative, phased mechanism for changing centrally sponsored scheme funding ratios, so that future disputes are resolved before an announcement rather than argued out afterward in budget speeches.

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