

State-Level Populism in Post-Liberalization India

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Introduction:

Post-1991 economic liberalization in India marked a decisive break from the Nehruvian model of state-led planning, import substitution, and public sector dominance, moving instead toward a market-oriented, globally integrated economy. Yet, contrary to expectations that neoliberal reforms would shrink the redistributive role of the state, state governments across India deepened and diversified populist welfare measures, particularly from the late 1990s and 2000s onward. These policies—ranging from universal food subsidies and free consumer durables to loan waivers and unconditional cash transfers—have become central instruments of competitive electoral politics at the subnational level.

This paper examines the emergence and evolution of state-level populist policies in post-liberalization India, focusing on a set of emblematic states—Tamil Nadu, Andhra Pradesh/Telangana, and West Bengal—with brief references to states such as Punjab where fiscal stress is acute. It argues that the coexistence of fiscal conservatism at the Union level, institutionalized through the Fiscal Responsibility and Budget Management (FRBM) framework, with expansive, electorally driven welfarism in many states reflects structural tensions within India's federal political economy. These tensions arise from asymmetric liberalization, uneven growth, and the political need to address grievances produced by neoliberal transformation without fundamentally altering its underlying logic.

Conceptual framework

Populism, neoliberalism, and welfare

In the comparative political economy literature, populism is commonly understood as a political logic that juxtaposes a virtuous “people” against a corrupt “elite,” often mobilized by a personalistic leader or party claiming exclusive representation of the popular will. In economic terms, “fiscal populism” typically refers to expansionary, consumption-oriented policies that prioritize short-term political gains—through subsidies, transfers, and price controls—over long-term macroeconomic stability and investment. In the Indian context, populism has historically taken distributive forms such as loan waivers, free or subsidized electricity, and large-scale food subsidies, directed mainly at rural and low-income constituencies.

Neoliberalism, by contrast, is associated with deregulation, privatization, reduction of trade barriers, financial liberalization, and a relative retreat of the state from direct production, alongside an emphasis on fiscal prudence and inflation control. However, in many Global South contexts, neoliberal reforms do not eliminate welfare politics; they instead co-exist with, and sometimes intensify, targeted welfare programmes representing “policy hybrids” that combine market-oriented reforms with compensatory social provisioning. In India, this hybrid settlement is visible in the juxtaposition of pro-investor reforms with expansive rights-based social programmes at the Union level (e.g., employment guarantees, food security) and with highly visible, often universalistic welfare schemes at the state level.

State-level federalism and subnational political economy:

India's federal structure allocates significant policy responsibility to states in sectors such as health, education, agriculture, and many welfare domains, even as the Union controls

major tax bases and exercises regulatory and fiscal oversight. The post-1991 period has witnessed growing subnational economic divergence, with some states integrating rapidly into global and domestic markets and others lagging behind, leading to differentiated political incentives regarding welfare and populist promises. As states compete for investment and electoral support simultaneously, political elites face incentives both to signal fiscal responsibility to markets and the Union, and to signal pro-poor commitment to voters through subsidies and transfers.

The FRBM framework, introduced at the Union level in the early 2000s and subsequently adapted in state-level FRBM Acts, sought to discipline subnational borrowing and reduce fiscal deficits. Yet, the persistence and expansion of populist schemes in many states suggest that formal fiscal rules are often circumvented, relaxed, or selectively interpreted in response to electoral pressures. The consequence is an emerging pattern of “asymmetric liberalization,” where states bear much of the burden of social and political adjustment to market-oriented reform, while Union-level policy prioritizes macro-stability and growth.

Historical background: From Nehruvian socialism to liberalization:

Nehruvian developmentalism and early welfare

The first four decades after independence were dominated by a state-led model of development oriented around public sector expansion, planning, and a mixed economy. Although often described as “socialist,” this model combined limited land reform and social sector spending with protection of domestic industry and a relatively narrow tax base, producing modest growth and persistent inequality. Welfare initiatives were typically incremental, with food subsidies and public distribution emerging as key instruments of social policy, but many programmes suffered from leakage, inadequate coverage, and weak targeting.

Some states, particularly in the south, experimented with more ambitious welfare schemes even in the pre-liberalization period. Tamil Nadu’s early midday meal programmes in the 1920s and their later expansion under the M.G. Ramachandran government in the 1980s illustrate an early form of subnational welfarism that combined nutritional objectives with political mobilization and identity construction. These initiatives foreshadowed later patterns of competitive populism in multi-party state systems.

1991 crisis and the neoliberal turn

The 1991 balance-of-payments crisis triggered a comprehensive package of stabilization and structural adjustment measures, including devaluation, trade liberalization, deregulation of industrial licensing, and gradual opening of financial sectors. The reform process, initially framed as a temporary response to external constraints, became embedded as a longer-term shift toward a more market-driven development strategy. Over time, economic liberalization contributed to higher aggregate growth rates and the emergence of new middle-class and corporate constituencies, particularly in urban and service-sector hubs.

However, liberalization also generated regional and social disparities. Growth became concentrated in a subset of states and sectors, while large segments of the rural population, informal workers, and marginalized groups experienced precarious employment, agrarian distress, and vulnerability to price shocks. These inequalities created fertile ground for both left-leaning and right-leaning forms of populism, which promised to protect “ordinary people” from the costs of neoliberal transformation through redistributive schemes, subsidies, and symbolic appeals.

Mapping state-level populist policies after 1991:

Tamil Nadu: Welfare as competitive populism

Tamil Nadu has been a pioneer and trendsetter in welfare politics, with Dravidian parties deploying an extensive repertoire of schemes aimed at nutrition, education, gender empowerment, and consumption smoothing. The Noon Meal Programme, which evolved into a universal midday meal for schoolchildren, sought to reduce classroom hunger, improve attendance, and address social inequalities, and has subsequently influenced national policy in the form of the Mid-Day Meal/PM POSHAN scheme. Over time, Tamil Nadu governments added complementary programmes such as free school uniforms, textbooks, bicycles for students, and more recently breakfast schemes for primary school children.

Alongside these social investments, successive governments in Tamil Nadu institutionalized highly visible “gift” schemes, including free colour televisions, mixer-grinders, laptops for students, and subsidized or free rice for large segments of the population. These measures serve multiple purposes: they sustain a narrative of a benevolent, caring state; reinforce partisan loyalty; and symbolically compensate for economic insecurities that liberalization has not resolved. At the same time, they contribute to persistent revenue deficits and constrain fiscal space for capital expenditure, even though Tamil Nadu often maintains better social indicators than many other states.

Andhra Pradesh/Telangana: Loan waivers and welfare competition

In the erstwhile united Andhra Pradesh and its successor states, populist policies have been closely intertwined with agrarian politics, coalition dynamics, and emerging regional identities. Farm loan waivers have been repeatedly used as a political instrument, with major waiver packages announced around elections to address rural indebtedness and agrarian distress. While loan waivers provide immediate relief to beneficiary households, they can also weaken credit discipline, discourage formal lending to small farmers, and impose substantial fiscal costs that accumulate as contingent liabilities.

Further, these states have introduced a wide range of welfare schemes—such as subsidized canteens modeled on low-cost food outlets, various scholarship and fee reimbursement schemes, and housing promises—often branded under specific party or leader names to maximize political returns. Many of these programmes are universal or quasi-universal rather than sharply targeted, blurring the line between social protection and electoral largesse. The proliferation of such schemes has contributed to rising revenue expenditure and higher debt-to-GSDP ratios, even when headline deficits are temporarily compressed to comply with formal fiscal norms.

West Bengal: Cash transfers and political realignment

West Bengal offers a different trajectory, transitioning from a long period of Left Front rule to a populist regional party regime that has adopted a mixture of targeted and universal welfare schemes to consolidate support. One prominent example is the Lakshmir Bhandar scheme, which provides monthly income support to women in specified socio-economic categories, framed as both a recognition of unpaid care work and a tool for women’s empowerment. The programme has grown rapidly in fiscal size and coverage, becoming a central pillar of the state’s welfare architecture and a key electoral talking point.

In addition to cash transfers, West Bengal has expanded scholarships, health insurance, and food subsidies, partly as a response to economic stagnation and limited formal employment opportunities. These measures seek to mitigate the social consequences of deindustrialization and limited private investment, but they also place strain on a fiscally constrained state that

faces challenges in mobilizing its own tax revenues. Rising debt and interest payments limit the scope for capital spending on infrastructure and productive sectors, reinforcing a cycle where welfare becomes a substitute for, rather than complement to, structural transformation.

High-debt states: The case of Punjab

States such as Punjab illustrate the extreme end of the fiscal populism spectrum, with debt-to-GSDP ratios reportedly exceeding 50 percent in recent years. In Punjab, decades of free or highly subsidized electricity to agriculture, generous procurement policies, and a lack of diversification away from water-intensive cropping patterns have created entrenched interest group expectations that are politically costly to reform. Populist commitments to maintain or expand subsidies even in the face of fiscal distress have contributed to a situation where servicing debt and financing recurrent subsidies consume a large share of the budget, crowding out development expenditure.

Electoral incentives and the logic of populist welfarism: Competitive multi-party systems and welfare signaling

The expansion of state-level welfare and populist schemes in post-liberalization India is tightly linked to the structure of party competition. In many states, the decline of single-party dominance and the rise of regional parties have led to intense competition for key voter blocs, especially among lower-income and caste-marginalized groups. Welfare schemes serve as powerful signals of distributive commitment and as tangible evidence of performance that can be showcased during elections. The visibility of benefits—such as a free laptop or regular cash transfer—often matters more politically than the long-run productivity or sustainability of the scheme.

Leaders and parties also use welfare programmes to build durable clientelistic networks, embedding intermediaries at the local level who facilitate access to benefits and reinforce partisan identification. In such settings, the distinction between social protection and patronage becomes blurred, with bureaucratic discretion and political mediation shaping who effectively receives assistance and under what conditions. The short electoral cycle encourages governments to prioritize schemes that yield quick, individualized payoffs rather than longer-term investments in infrastructure, industrial policy, or institutional reform.

Populism as response to neoliberal inequality

Populist welfarism can be interpreted as a political response to the inequalities and insecurities produced by neoliberal restructuring. Rapid growth in urban, skill-intensive, and capital-intensive sectors has not generated sufficient decent employment for the majority of the workforce, which remains concentrated in informal and low-productivity activities. For large segments of the population, particularly in rural and peri-urban areas, welfare schemes represent one of the few visible ways through which the state acknowledges and partially mitigates their vulnerability.

This dynamic creates a paradox: while neoliberal reforms reduce the direct economic role of the state, they simultaneously increase demand for compensatory state intervention in the form of subsidies, transfers, and protections. State governments, closer to citizens than the Union and often more exposed to localized discontent, become the frontline providers of such interventions, even when their fiscal capacity is limited. As a result, populist welfarism becomes an institutionalized feature of India's post-liberalization political economy rather than a transient anomaly.

Fiscal impact of state-level populism:

FRBM framework and formal fiscal discipline

The FRBM Act at the Union level and corresponding state laws sought to limit fiscal deficits and reduce public debt through numerical targets and procedural requirements, such as medium-term fiscal plans and restrictions on off-budget borrowing. These rules were intended to reassure investors, improve macroeconomic stability, and create space for private investment. States were encouraged to adhere to defined deficit ceilings in exchange for favourable borrowing terms and additional resource transfers.

However, the design and implementation of FRBM frameworks have allowed considerable flexibility, particularly during economic slowdowns, natural disasters, or politically sensitive periods. Targets have been relaxed, timelines extended, and creative accounting techniques employed to maintain the appearance of compliance. Off-budget borrowings, public sector undertakings, and guarantees have provided avenues for states to finance populist schemes without immediately breaching statutory deficit limits, shifting the burden onto future budgets through rising interest and repayment obligations.

Debt, deficits, and composition of expenditure

The cumulative effect of sustained populist spending has been a gradual increase in state-level debt ratios in many parts of India, with some states crossing levels that raise concerns about fiscal sustainability. High debt servicing costs and large salary and pension bills restrict the share of budgets available for capital expenditure and growth-enhancing investments in infrastructure, irrigation, and productive assets. When populist schemes are financed through borrowing rather than through increased own-tax effort or expenditure reprioritization, future fiscal flexibility is further reduced.

Equally important is the changing composition of expenditure. Many populist programmes fall under revenue expenditure, often in the form of subsidies, transfers, and grants that do not create durable assets. While some of these—such as investments in nutrition and education—have positive long-term externalities, others primarily provide immediate consumption gains without clear productivity effects. The opportunity cost of such spending in contexts of limited fiscal space is high, as governments forgo investments that could expand the productive base and raise future revenues.

Institutional and governance consequences:

Patronage, administrative capacity, and leakages

The proliferation of state-level welfare schemes increases the complexity of implementation and creates multiple points of interaction between citizens and local bureaucracies. In theory, this could expand the reach of the welfare state; in practice, it often generates opportunities for discretionary allocation, rent-seeking, and political mediation. Overlapping schemes, inconsistent eligibility criteria, and weak information systems make it difficult to monitor coverage, prevent duplication, and ensure that benefits reach intended recipients.

Where administrative capacity is limited, high volumes of individual benefits can strain frontline delivery systems, leading to delays, leakages, and uneven quality. The politicization of programme implementation—through the involvement of party workers, local notables, and elected representatives in beneficiary selection and grievance redress—can reinforce patronage structures and undermine universalistic notions of citizenship. This dynamic is especially pronounced in schemes that are branded around leaders and parties rather than embedded in stable institutional frameworks.

Central-state relations and federal tensions

State-level populism also reshapes the dynamics of Indian federalism. On the one hand, welfare innovation at the state level has often served as a laboratory for national policy diffusion, as seen in the influence of Tamil Nadu's midday meal model on the national school feeding programme.

On the other hand, tensions arise when states demand greater fiscal transfers or flexibility to finance their schemes, while the Union emphasizes fiscal consolidation and uniform macro rules.

Controversies over tax devolution formulas, cesses and surcharges that do not form part of the divisible pool, and the conditions attached to centrally sponsored schemes all intersect with state-level welfare politics. States that rely heavily on visible populist schemes for electoral legitimation may view Union-imposed constraints as encroachments on their autonomy, while the Union may regard some state policies as fiscally irresponsible or distortionary. This friction contributes to an increasingly contested federal landscape, in which fiscal and ideological disputes intertwine.

Federal tensions and asymmetric liberalization:

Uneven growth and differentiated political strategies

Asymmetric liberalization has produced distinct economic trajectories across states, leading to varied political strategies regarding populism. High-growth states with diversified economies may prioritize a mix of social sector investments and targeted transfers, while lower-growth or fiscally constrained states may rely more heavily on broad-based populist schemes to offset economic stagnation. In both cases, political elites face the challenge of reconciling growth coalitions—comprising business interests, middle classes, and urban constituencies—with welfare coalitions composed of rural, informal, and marginalized voters.

The Union's emphasis on national-level reforms and fiscal discipline does not always align with state-level imperatives, especially where subnational regimes derive their core legitimacy from welfare delivery and identity-based mobilization. States often frame their populist agendas as expressions of regional pride, social justice, or cultural distinctiveness, reinforcing their political autonomy even as they depend financially on Union transfers and borrowing permissions.

Centralization, welfare nationalism, and subnational competition

In recent years, the rise of a strong national ruling party has added a new layer to these dynamics. The Union government has expanded its own repertoire of direct benefit transfers and welfare schemes, constructing a narrative of welfare nationalism that seeks to bind citizens to the central state. This creates both convergence and competition with state-level programmes, as beneficiaries navigate overlapping Union and state schemes that may have different branding but similar objectives.

Towards sustainable and equitable reform:

Improving design: From freebies to social investment

One way to reconcile equity with sustainability is to reorient state-level welfare from ad hoc, politically timed “freebies” toward carefully designed social investments. This involves prioritizing schemes that generate long-term productivity gains—such as nutrition, education, skill development, and preventive health—over purely consumption-oriented giveaways. For instance, school meals and breakfast programmes can be integrated with broader learning outcome initiatives, while scholarships and bicycle schemes can be linked to measures that reduce dropout rates and enhance employability.

Such a shift does not imply abandoning redistributive commitments; rather, it stresses the cumulative benefits of human capital formation and social protection that enable citizens to participate more fully in market economies. States can also rationalize overlapping programmes, consolidating multiple small schemes into a smaller number of well-funded, rights-based entitlements with clear eligibility criteria, robust monitoring, and transparent grievance redress mechanisms.

Conditional cash transfers and outcome-based budgeting

Conditional cash transfers (CCTs) offer a promising alternative to untargeted freebies, particularly when conditions are linked to socially desirable behaviours such as school attendance, vaccination, maternal health visits, or skill acquisition. Properly designed, CCTs can empower households with choice while steering resources toward investments in human capital. They can be more cost-effective than universal in-kind schemes if implemented with reliable identification systems and minimal transaction costs.

Outcome-based budgeting can complement this approach by aligning resource allocation with measurable improvements in social and economic indicators. Instead of treating welfare outlays as fixed political commitments, governments can institute mechanisms where programmes are periodically evaluated for their impact on poverty reduction, educational attainment, health outcomes, and employment, with funding decisions informed by these assessments. This requires strengthening statistical systems, independent evaluation agencies, and parliamentary or legislative oversight.

Strengthening fiscal institutions and cooperative federalism

At the institutional level, reforms are needed to enhance the credibility and flexibility of fiscal rules. This may involve revisiting FRBM targets in light of changed macroeconomic conditions, clarifying escape clauses, and improving transparency around off-budget borrowing and contingent liabilities. Independent state-level fiscal councils could provide non-partisan assessments of budget proposals, debt sustainability, and the long-term implications of major welfare commitments.

At the federal level, mechanisms of cooperative fiscal federalism can help reconcile Union and state priorities. Regular, structured dialogue between Union and state finance ministries, reformed intergovernmental forums, and more predictable transfer arrangements can reduce uncertainty and enable states to plan their welfare portfolios more sustainably. Linking additional Union support to improvements in outcome indicators, rather than to specific scheme designs, would allow states flexibility while encouraging better performance.

Conclusion:

Post-liberalization India presents a complex picture in which market-oriented reforms, rising inequalities, and a vibrant democratic polity have together produced a distinctive pattern of state-level populism. Far from receding, welfare and populist schemes have become more central to subnational politics, as governments seek to mediate the social consequences of neoliberal transformation and to cultivate loyal voter bases through tangible benefits. Tamil Nadu's extensive welfare architecture, Andhra Pradesh and Telangana's recurrent loan waivers and branded schemes, West Bengal's cash transfers, and Punjab's entrenched subsidies exemplify the varied forms this phenomenon can take.

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