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Government Expenditure On Social Sector: A Study Of Indian States

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ABSTRACT

Economic prosperity alone does not ensure the enrichment in quality of life. Investing in people is now well recognized as the prime motive behind various development and poverty alleviation initiatives. The Millennium Development Goals have been set by the United Nations Millennium Declaration with focus on social priority areas such as education, health, nutrition, water and sanitation, social security and welfare, to name a few. Moreover, it is felt by policy makers that empowerment of the underprivileged sections of the society is crucial to sustainable economic development and growth. Economic prosperity and social development are mutual and reinforcing components of each other. The World Bank has often emphasized the importance of restructuring government expenditure patterns in favor of the social sector particularly the basic social services. In this backdrop, the present study examines the allocation of government expenditure on the social sector by the Indian states in the post-reform period. The study arrives at discouraging facts of fading commitment of Indian states towards social sector betterment with declining shares of states' expenditure in social sectors.

Keywords :Government Expenditure, Social Expenditure, Human Expenditure Ratio, Human Priority Ratio, Social Allocation Ratio

Introduction

Economic prosperity, measured in terms of per capita income, does not alone ensure the enrichment in quality of life. Investing in people is now well recognised as the prime motive behind various development and poverty alleviation initiatives. At the development-planning front, there is greater emphasis on synergizing economic growth with desirable social attainments along with ensuring growing opportunities for all. It is envisaged that the role of the governments will have to expand increasingly in social sectors.

At the international level, one sees several initiatives in the nineties aimed at sustainable economic and social development, which have finally culminated in the shape of the United Nations Millennium Declaration of September 2000, setting out various developmental goals influencing the well-being of people. Education and health sector goals have been recognised as crucial components of the Millennium Development Goals. The importance being attached to these two sectors by the international community is associated with the changing perceptions about the desirability of human capital formation not only as a means, but also as an end in itself [Kaur and Misra, 2003]. The World Development Report [2003] also notes that one of the initiatives to promote sustainable development in a dynamic world is to empower underprivileged sections of population by increasing their access to education and health.

Since the late 1980s, the development debate has witnessed repeated calls for restructuring of public expenditure in favour of social and physical infrastructure. In response to a greater recognition of human development in its instrumental role in economic growth, there has been increasing emphasis on budget reallocation in favour of the social sector.

In its expenditure reviews, the World Bank has more often argued that governments should restructure their spending patterns in favour of the social sectors, and more specifically in favour of basic social services [BSS]. The BSS includes basic health, education, water and sanitation, nutrition and reproductive health and population programmes. During the 1990s, restructuring public expenditure towards BSS has increasingly been seen as a necessary first step for raising the levels of social indictors. The financing of basic social services, given their characteristics of being merit goods, must be guaranteed by the state.

In India, Centre and State governments have their separate responsibilities towards social expenditure as laid down in the Constitution. The objective of this paper is to examine the allocation of government expenditure on social sector by the Indian states in post-reform period. The section one examines the changing trend and composition of total government expenditure of Indian states with special reference to social sector allocation. Section two finds out the human expenditure ratios of the state governments at the aggregate level. Finally, section three concludes the study. The data used in the study has been drawn from various issues of 'States Finances: A Study of Budgets', Reserve Bank of India.

1.Trend and Composition of Social Expenditure

The total expenditure of the state governments consists of developmental and non-developmental expenditures. The developmental expenditure is further classified into economic and social expenditure.

The Table 1 shows the changing share of various components of total expenditure in the post-reform period [1991 to 2004]. There has been more allocation of expenditure towards non-development activities in the post-reform period. The percentage share of non-development expenditure [NDE] in total expenditure [TE] has substantially increased from 24.59 percent in 1990-91 to 36.20 percent in 2003-04; whereas the share of development expenditure [DE] in TE has declined from 63.47 percent in 1990-91 to 52.10 percent in 2003-04. Of the total development expenditure, more than a half goes towards the social expenditure. The percentage share of social expenditure [SE] in total expenditure [SE/TE] has been continuously falling from 32.42 percent in 1990-91 to 28.72 percent in 2003-04.

Table: 1
Expenditure Pattern of Indian States

Expenditure	1990-91	1995-96	2000-01	2003-04
DE/TE	63.47	60.31	57.24	52.11
NDE/TE	24.59	30.88	34.26	36.20
SE/TE	32.42	32.05	32.14	28.72
EE/TE	31.39	28.65	25.48	23.91
SE/DE	50.53	52.49	55.47	54.11
EE/DE	49.46	47.50	44.52	45.88

Social sector is usually classified into eleven broad categories covering the issues such as education, medical health, nutrition, housing, urban development and welfare. Within the various sub-sectors of social sector; education, medical health, water supply and sanitation, and nutrition constitute the human priority sector. Tables 2 and 3 exhibit the share of various components of social sector expenditure in the TE and SE respectively.

The public expenditure by the Indian states on majority of social sectors has been declining remarkably as shown in Table 2. Education, which gets the maximum share of total resource allocation on social sector, has declined from 17.35 percent in 1990-91 to 14.48 percent in 2003-04. Urban development is the only sector that has witnessed gradual increase in its share. Surprisingly, all the four sectors [education, medical health, water and sanitation, and nutrition] under human priority have received lesser resource allocation as a percentage to total expenditure. The combined share of expenditure on human priority [HPE] had remained around 25 percent during 1990-91 to 2000-01; but then declined sharply to 20.77 percent in 2003-04.

Table: 2
Government Expenditure on Social Services
[As a percent to Total Expenditure]

Government Expenditure on Social Sector as a % to TE	1990-91	1995-96	2000-01	2003-04
1. Education, Sports, Art & Culture	17.35	16.53	17.35	14.48
2. Medical & Public Health	5.29	4.03	3.95	3.49
3. Water Supply & Sanitation	2.18	2.27	2.45	2.24
4. Nutrition	0.58	1.21	0.72	0.55
5. Family Welfare	0.00	0.95	0.69	0.62
6. Housing	0.94	0.99	0.90	1.09
7. Urban Development	0.72	0.84	1.04	1.32
8. Welfare of SC, ST & OBC	2.09	2.03	1.87	1.86
9. Labour & Labour Welfare	0.49	0.41	0.35	0.32
10. Social Security & Welfare	1.52	1.38	1.44	1.49
11. Relief on Account of Natural Calamities	0.96	1.08	1.11	0.74
12. Others	0.24	0.29	0.21	0.46
Total Social Expenditure	32.42	32.05	32.14	28.72
Expenditure on Human Priority [1+2+3+4]	25.42	24.05	24.49	20.77

Table 3 explains the allocation of state governments' expenditure on various social sectors as a percentage to social expenditure. Expenditure on human priority [HPE] constitutes almost three-fourth of the social expenditure and half of the total social expenditure is allocated towards education, sports, arts and culture.

Share of HPE in total social expenditure has marginally declined. Infact, the composition of social expenditure is undergoing a gradual change over a period of time; in which, the water and sanitation, housing, urban development and social security and welfare are getting bigger share of social expenditure compared to education, medical health and nutrition.

Table: 3
Government Expenditure on Social Services
[As a percent to Social Expenditure]

Government Expenditure on Social Sector as a % to SE	1990-91	1995-96	2000-01	2003-04
1. Education, Sports, Art & Culture	54.11	52.22	54.66	51.36
2. Medical & Public Health	16.50	12.73	12.46	12.39
3. Water Supply & Sanitation	6.82	7.17	7.73	7.95
4. Nutrition	1.83	3.83	2.27	1.95
5. Family Welfare	0.00	3.00	2.17	2.22
6. Housing	1.86	1.88	1.63	2.01
7. Urban Development	2.27	2.67	3.29	4.69
8. Welfare of SC, ST & OBC	6.53	6.43	5.89	6.62
9. Labour & Labour Welfare	1.54	1.32	1.11	1.15
10. Social Security & Welfare	4.75	4.35	4.53	5.31
11. Relief on Account of Natural Calamities	3.00	3.42	3.51	2.64
12. Others	0.76	0.92	0.68	1.66
Total Social Expenditure	100.00	100.00	100.00	100.00
Expenditure on Human Priority [1+2+3+4]	79.27	75.97	77.14	73.66

In India, Centre and State governments have their separate responsibilities towards social expenditure as laid down in the Constitution. Health related matters are the responsibility of the states and the issues pertaining to education, welfare and employment are the responsibility of both states as well as centre.

Table 4 shows the changing share of centre and the states in overall social sector expenditure. As is evident from the table, the aggregate contribution of Indian states towards social expenditure is very high. However, this contribution of states has declined substantially in the case of family welfare and housing and marginally in education, medical health and employment. The contribution of states in comparison to the centre has rather increased in the case of urban development.

Table: 4
Share of States in Total Expenditure
[in percent]

Major Social Sector Heads	1990-91	2000-01
1. Education, Sports, Art & Culture	90.3	89.1
2. Medical & Public Health, Water Supply & Sanitation	90.7	88.8
3. Family Welfare	93.5	71.5
4. Housing	71.4	53.5
5. Urban Development	85.7	94.4
6. Labour & Employment	60.3	57.7
7. Social Security & Welfare	92.3	89.5
8. Others	18.4	21.9

Source: IDR, 2005

2. Human Expenditure Ratio

The HDR [1991] introduced four expenditure ratios, which were considered necessary to analyze how public spending on human development can be designed and monitored. The four ratios are:

i. Public Expenditure Ratio [PER] = TE / NI
ii. Social Allocation Ratio [SAR] = SE / TE
iii. Social Priority Ratio [SPE] = HPE / SE
iv. Human Expenditure Ratio [HER] = HPE / NI

HER is the product of the other three ratios.
HER = PER x SAR x SPE
HER = [TE/NI] x [SE/TE] x [HPE/SE]
Hence, HER = HPE / NI

Where,
PE = Public Expenditure
SE = Social Expenditure
HPE = Expenditure on Human Priorities.

The HDR provides norms for various ratios, the fulfillment of which is expected to lead to higher levels of human development. According to the report, human expenditure ratios [HER] may need to be around 5 percent if a country wishes to do well in human development. This may be achieved by keeping "the PER moderate [around 25 percent], allocate much of this to the social sector [more than 40 percent] and focus on the social priority areas by giving more than 50 percent" [HDR, 1991, pp.40].

Of course, these ratios are referred to the country as a whole; we have calculated the same for the aggregate of all the states. Net State Domestic Product has been substituted for National Income. The expenditure on human priority [HPE] includes four components of social sector; namely, education, medical health, water and sanitation, and nutrition as defined in Haq [1992] and Prabhu and Chatterjee [1993].

Table: 5
Expenditure Ratios

Expenditure Ratios	UNDP	1990-91	1995-96	2000-01	2003-04
TE/NI [PER] Public Expenditure Ratio	25.00	18.09	16.75	18.42	19.48
SE/TE [SAR] Social Allocation Ratio	40.00	32.07	31.66	31.75	28.19
HPE/SE [SPE] Social Priority Ratio	50.00	79.27	75.97	77.14	73.66
HPE/NI [HER] Human Expenditure Ratio	5.00	4.60	4.03	4.51	4.04

The social sector has not received its due allocation by the Indian states as pointed out in Table 5. The public expenditure ratio [PER], defined as ratio of total public expenditure [TE] to combined net state domestic product [NSDP], has never been able to meet the UNDP requirement of 25 percent in the post-reform period covering 1991 to 2004.

The social allocation ratio [SAR], defined as social expenditure [SE] in total public expenditure [TE], has substantially fallen short of UNDP requirement through out the period of study. In fact, the Indian states are allocating lesser and lesser funds towards social sectors out of their total expenditure.

The human priority expenditure [HPE], which explains the proportion of total social expenditure towards social priority areas, has been remarkably high, even overshadowing the UNDP requirement.

The above analysis certainly points out at the poor state of commitment on the part of Indian states towards social sector allocation. Studies suggest reasons for the poor performance of the Indian states at the social expenditure fronts. Dev and Mooij [2005] suggest that it is the reflection of eroding commitment of Indian states towards social development. Saxena and Farrington [2002] blame it on the severe fiscal crisis that the Indian states are experiencing.

Rangarajan [1997] explains that while public expenditure ratios do provide a clue to the seriousness of efforts made, they themselves do not fully explain the level of human development. Much depends on the efficiency with which the resources allocated are utilized. Leakages and inefficiency are endemic in such expenditure, plugging of which becomes essential if the full benefits of such expenditures are to be reaped.

In an empirical study of nine countries [India, Zambia, Jamaica, Pakistan, Egypt, Srilanka, Tunisia, Mexico and Philipines], Giovanni and Stewart [1993] examine two common mistakes that occur while targeting public expenditure on specific groups. E-mistake occurs when there is excessive coverage of population i.e. when people not intended to be included along the beneficiaries nonetheless receive benefits. F-mistake occurs when persons who are intended to be beneficiaries nonetheless fail to be covered by the programme and hence fail to receive benefits.

Policy makers often concentrate on minimizing the E-mistake [Rangarajan, 1997]. However, studies suggest that E and F ratios are inversely related i.e. attempt to reduce E-mistakes can often result into a larger number of F-mistakes. The presence of E and F mistakes has given rise to the controversy as to whether the welfare programmes should be broadly based or sharply focused. While broadly based programmes are easier to manage, sharply focused programmes become a necessity, given the financial resource constraint faced by almost all the countries.

3.Conclusions

There has been increasing focus and several initiatives in the nineties were aimed at sustainable economic and social development. It is envisaged that the role of the governments will have to expand increasingly in social sectors to achieve this.

In India, Centre and State governments have their separate responsibilities towards social expenditure as laid down in the Constitution. Health related matters are the responsibility of the states and the issues pertaining to education, welfare and employment are the responsibility of both; states as well as centre. The aggregate contribution of Indian states towards social expenditure is much higher than the contribution of the Centre. However, this contribution of states has been declining substantially in the post reform period.

Within the Indian states, at the aggregate level, there has been more allocation of expenditure towards non-development activities in the post-reform period. Of the total development expenditure, more than a half goes towards the social expenditure. Surprisingly, all the four sectors [education, medical health, water and sanitation and nutrition] under human priority have received lesser resource allocation as a percentage to total expenditure. Expenditure on human priority constitutes almost three-fourth of the social expenditure and half of the total social expenditure is allocated towards education, sports, arts and culture.

The social allocation ratio, defined as proportion of social expenditure in total public expenditure, is much below the UNDP requirement through out the period of study. In fact, the Indian states are allocating lesser and lesser funds towards social sectors out of their total expenditure.

The present analysis certainly points out at the poor state of commitment on the part of Indian states towards social sector allocation. Studies suggest reasons for the poor performance of the Indian states at the social expenditure fronts. It has been suggested that it's the reflection of eroding commitment of Indian states towards social development. The severe fiscal crisis that the Indian states are experiencing has also been cited as a reason for dismal performance of the Indian states towards social sector. Hence, there is a decreasing role of state governments in the country in social sector development towards the larger objective of alleviating the woes of this sector. The state governments seem to be easing out of their constitutional commitment to sustain programmes in social sectors, which is a matter of great concern.

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