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SOCIAL SECTOR EXPENDITURES AND BUDGETING AN ANALYSIS OF PATTERNS AND THE BUDGET MAKING PROCESS IN INDIA IN THE 1990s

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Abstract

In this paper we discuss (a) patterns in social sector expenditures at both Central and State levels using central and state budget data (b) official justification of budget allocations by looking at budget speeches (c) the budget making process largely based on interviews with policy makers, stake holder groups and outside observers, and on secondary material. While trends deal with both Central and State levels of social sector expenditures, our discussion about the budget justification and the budget making process focuses exclusively on the Centre.

The analysis of the trends reveals that not much priority is given in India to social sector expenditure. Since the mid-1990s, a higher proportion of government expenditure has been allocated to the social sector,as compared to the first years of the 1990s. Yet, at the same time, we have to add that, as a proportion of GDP, social sector spending has not increased. As far as there has been any improvement, it is marginal. The levels in the 1990s are low, as compared to the 1980s, as compared to other developing countries (and certainly as compared to East Asian countries) and as compared to the international standards as developed by the UNDP. The performance of the States has been even worse than the performance of the Centre, even though the States have the major responsibility.

The analysis of the budget speeches shows that the poor are very important in the justification of the budgets. The official argumentation is that the poor would benefit from the economic reform process. Nothing, however, is said about social inequality and redistribution of wealth.

The analysis of the budget making process reveals that the process is not very participatory or democratic. The role of the Finance Ministry in the process of Plan and budget making has increased in the 1990s. Many policy makers and/or economic advisors to the government seem to regard the Plan in general or social sector spending in particular as residual. In times of a fiscal crisis it is in the social sector that the first budget cuts are made.

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In the process of preparing this paper, we interviewed more than thirty experts: people who are or have been involved in the budget making process itself in one way or another and some outsiders. Their names can be found in Appendix 2. Most were very cooperative in sharing their knowledge and insights with us. We would like to thank them all very much.

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We alone are responsible for the content of this paper. We would welcome comments and discussion on the arguments made.

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1. INTRODUCTION

Throughout the history of Independent India, the Indian government has claimed that it wants to work towards social development and the eradication of poverty. On the eve of Independence, Jawaharlal Nehru, addressing the Constituent Assembly, declared that the Independence meant the redemption of a pledge. But he also stated that this achievement "is but a step, an opening of opportunity, to the great triumphs and achievements that await us (...) the ending of poverty and ignorance and disease and inequality of opportunity".[1]

A lot has been achieved in the past half century. The incidence of poverty has declined from over 50 per cent in the 1950s to less than 30 per cent in the late 1990s.[2] The literacy rate has increased from less than 20 per cent in 1951 to 65 per cent in 2001. According to the recent Human Development Reports of UNDP, India moved from the category of 'low' human development to that of 'medium' human development and its present rank is 115. Nevertheless, the performance of India in the social sector is far from satisfactory, and could have been much better (Dreze and Sen, 1995).

The claims of the government that poverty eradication/alleviation and social development generally are the main challenges and that it is fully committed to address these issues have continued over time. Today, if we have to believe the government, the prime objective of most policies is to help the poor and reduce their numbers. This is even true for the economic reform policies. But how genuine is this claim?

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1. Jawaharlal Nehru's speech at the Constituent Assembly, New Delhi, on 14 August 1947. Quoted from Dreze and Sen (1995), p. 1.
2. There is a controversy on the estimates based on NSS data for 1999-2000.

In this paper we analyse budgets and social sector expenditures. Budgets are the most crucial policy documents to find out the social and economic priorities of governments. It is in these expenditure decisions that official objectives and stated commitments get a concrete shape or not (Jain and Indira, 2000). In order to understand the genuineness of the government's claims, budgets are therefore a useful point of entry.[3]

Budgets can be analysed from three perspectives. First, there is the content of the budgets. What kind of allocations are made, and what are the trends therein? Second, there is the justification of these decisions. How does the government legitimise its allocation decisions and the real expenditures (whether in tune or not in tune with the allocations made earlier). Third, there is the budget making process. Is it participatory? What kind of stakeholders are involved in the process; whose interests are mainly represented; which ideas have dominated the process? The present study does all these three things. They are dealt with in chapters 2, 3 and 4 respectively.

Our focus is on the social sector, which we define as the total of expenditure on 'Social Services' and ' Rural Development' as given in Central and State budgets. The head 'Social Services' includes, among other things, education, health & family welfare, water supply and sanitation. The expenditure under the head 'Rural Development' (which is listed under 'Economic Services' in the budget classification) relates mostly to anti-poverty programmes.[4] Expenditure on food policy/subsidy is included in some of the tables, but not in 'total social sector' expenditure because only a part of the subsidy reaches the poor. In our discussion on budget justifications and on the budget making process, the food subsidy/policy is included.

As far as we know, not many studies have been done on the process of social sector budget making in India[5]. There is a book by Basu (1995) on public expenditure decision making in India, which has one chapter on education (which she compares with the fertilizer sector and the irrigation sector). Her analysis focuses mainly on

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3. Of course, budgets are not the only point of entry. Implementation processes are also absolutely crucial. Since government agents are usually very important in implementation, the commitment of the government can also be studied in the implementation processes. The present study focuses, however, only on budgets and expenditures.

4. This distinction between economic and social services is a bit odd and certainly suggestive. Social services, as one of our respondents said, is 'seen as what the government gives away'. Economic services are 'what is promoted'. There is a suggestion that 'economic' is more important because it is associated with longer term economic development and that 'social' may be 'wasteful'.

rationality of the various procedures within the government machinery. There are a number of non governmental organisations in India which undertake budget studies, and try to raise awareness on budgetary matters and increase public participation in budget making. Their focus is mainly on decentralised forms of budget making. There is also an international network of non-government organizations (in which these Indian NGOs participate) promoting budget analysis from a social development and human rights perspective.[6] The emphasis of many of these NGOs is both on the content of the budgets, and on the process of formulating these budgets, i.e. whether this process was transparent and participatory. (See, Cagatay et al, 2000, or Jain and Indira, 2000, about India) Our present study is written with very similar questions in mind as many of the studies done in the context of this international budget project.[7]

Although we briefly compare expenditure levels in the 1980s with those in the 1990s, our main focus is on the 1990s. The 1990s have been a rather special period, in economic as well as in political terms. In 1991 there was an acute balance of payment crisis. There was a very serious liquidity crisis. In June 1991, foreign exchange reserves were barely sufficient to cover two weeks of imports. The rupee was devaluated, and various international loans were taken to overcome the immediate problems. A stabilization programme was introduced, followed by an adjustment programme. In the course of the 1990s the various governments remained convinced of the necessity of economic adjustment. The result has been that the economic development model in 2001 is distinctly different from the development model pursued before 1991. The level of protection is less; the Indian economy has opened up much more to the world market than before.

In political terms, the 1990s was also a special decade. There have been as many as four Parliamentary elections. The first (Congress-I) government elected in the 1990s was the only one which completed its term, from 1991 to 1996. There have been subsequent general elections in 1996, 1998 and 1999. The Congress (I) gov-

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5. Seeta Prabhu has done a lot of pioneering work on the shifts in social sector expenditure in India, both at the central and at the State level, but she has not looked at budget justifications and the budget making process. See, for instance, Prabhu (2001). Another interesting paper is Guhan (1995), on trends in central government expenditure on the social sector.

6. See, for instance, the website: www.internationalbudget.org. There are also many studies about gender (in) budgets. See, for instance, Reeves and Wach (1999).

7. Although a bit old and not specifically about India, we found Caiden and Wildavsky (1974) a very useful book. It helped us to frame some of the questions about the budget making process.

ernment was the only single-party government in the1990s, though it was a minority government and it needed outside support in the Parliament from other political parties. The United Front government (1996-98) was a coalition government, consisting of centrist and left-wing parties. In 1998 the Bharatiya Janata Party became the biggest party and formed a coalition government, and the same happened after new elections were held in 1999. These last two governments depend to a large extent on regional parties. The present National Democratic Alliance is a coalition consisting of more than ten different political parties. These economic and political developments are the backdrop of the changes in social sector expenditure which we will describe in this paper.

Another important backdrop is that India has a federal structure and that the social sector is only partly a matter for the Union government. According to the Indian Constitution, health is a State matter; education comes under the concurrent list (which means that both the Centre and the States are responsible). Poverty is not mentioned in any of the lists but most rural development issues come under the State list. Welfare and employment issues come under the concurrent list. In practice, there is involvement of the central government in all social sectors, the reasons for which are discussed below (chapter 4), but it is very clear that the States are much more important for most aspects of social development than the Centre. Expenditures on food are mainly done by the Centre.

In this paper we look both at Central and State levels of expenditures. Our discussion about the budget justification and the budget making process focuses exclusively on the Centre. We realize this is an important limitation of the paper, but it was inevitable given the time constraints.

Another limitation is that we have looked almost exclusively on the expenditure side of the budgets, and much less on the revenue side. It is difficult to say something about the sources of social sector expenditures, i.e. where the money comes from. The Central government has no earmarked taxes meant for social development exclusively.[8] The expenditure, therefore, comes from (revenue and capital) receipts generally and from international loans and grants. Our guess is that the share of international money in total social sector expenditure has gone up in the 1990s, but we were unable to check this (except in the case of child-related development – see chapter 2). With regard to the amounts raised within India, there is a positive devel-

8. At the State level, such taxes exist. Maharashtra has introduced a special tax to finance the Employment Guarantee Scheme.

opment that, despite the continuous lowering of income tax rates, direct taxes (such as corporation tax and personal income tax) have become more important in the total tax revenue of the Government of India. The share of direct tax revenue in total tax revenue has increased from about 20 per cent in 1990-91 to more than 35 per cent in 2000-2001. In that sense, taxing has become more progressive.

The paper has the following structure. In the second chapter we analyse the trends in social sector expenditure. The third chapter contains an analysis of the budget speeches. It discusses the justifications given by the finance ministers for decisions regarding the social sector, the way in which the finance ministers chose to talk about poverty and social sector development and the strategic silences in the speeches. The fourth chapter is about the budget making process. The paper ends with a short concluding chapter.

2. SOCIAL SECTOR EXPENDITURE PATTERNS

In this chapter we analyse the trends in social sector expenditures. As mentioned already, we define social sector expenditure as the total of expenditure on 'Social Services' and 'Rural Development' as given in Central and State budgets. Food subsidy is included in the tables, but not in the totals of social sector expenditure. The trends are examined at three levels: (a) combined Centre and States (b) Centre and (c) States. The expenditures refer to both plan and non-plan. Both revenue and capital expenditures are included.

There are different ways of examining the trends in budget expenditures. One way is to look at social sector expenditures as a proportion of GDP or GSDP (Gross State Domestic Product) in the case of the States. A second way is to calculate social sector expenditure as percentage of aggregate budget expenditure. The third option is to look at the real per capita expenditures for the social sector. We use all three approaches when we discuss the aggregate social sector expenditure. For the major and minor heads, the analysis is restricted to proportion of GDP or GSDP.[9]

The questions addressed in this chapter are the following.

(1) Has social sector expenditure declined/increased in the 1990s?
(2) What are the changes in the composition of social sector expenditures?
(3) Are there any improvements in education and health expenditures?
(4) What are the inter-State disparities in social sector expenditures?

9. See Appendix 1 for sources and some methodological notes.

(5) Has external aid for the social sector increased over time?

(6) Are the social sector expenditures in India low/high as compared to other countries and international norms?

The chapter is organized as follows. First, we examine the trends in combined (Centre+States) social sector expenditures. After that we have a section dealing with Central Government's expenditure and a section discussing social sector expenditure at the State level and inter-State disparities. The next section compares expenditures in India with other countries and international norms. The chapter ends with a short conclusion.

2. 1. Expenditure by Centre and States

At the outset it may be mentioned that the macro scenario regarding public expenditures in the 1990s can be characterized by decline in the share of public expenditure in GDP, decline in the share of capital account in aggregate expenditure and rise in the share of non-developmental expenditures.

Share of States in Combined Social Sector Expenditure

The combined social sector expenditure of Centre and States provides the best picture of India's commitment towards the social sector.[10] In this combined expenditure, the States contribute the lion share. Table 1 compares the shares of the States and of the Centre in the early and late 1990s. In 1990-91, the States' share for the total social sector (col.8, row 11) was around 85 per cent. With regard to rural development, the States' share was as high as 90 per cent. The share of the States declined for most of the major heads in the course of the 1990s. In 1998-99, the share of total social sector declined to 80 per cent. There was a very substantial decline in the share for rural development: at the end of the 1990s this was only 64 per cent. In spite of the decline, the contribution of the States to total social sector expenditure is still substantial and much larger than that of the Centre. In absolute figures, in 1998-99, India spent Rs.1,183.5 billion on social services and rural development. Out of this, the States spent Rs.946.4 billion.

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10. It is difficult to get the information on combined expenditure from the budgets. Simply aggregating the expenditure by the Centre and by the States gives an inflated picture because the budget information does not adjust for central transfers to States. We used data from the *Indian Public Finance Statistics* (Ministry of Finance, Government of India), which is adjusted for transfer funds. It may be noted that the classification for major heads in this source (and our tables 1,3 and 4) is slightly different than that in the budget tables and RBI Bulletins (and our subsequent tables).

Table - 1

Share of States in the total Social Sector Exp. of Centre and States (%), 1990-91 and 1998-99

Major Heads	1990-91 Expenditures (Rs. In billion current prices)			1998-99 Expenditures (Rs .in billion current prices)			Share of States (%)	
	Centre	States	Total	Centre	States	Total	1990-91	1998-99
	2	3	4	5	6	7	8	9
1. Education,art and culture	16.8	157.0	173.8	63.0	464.0	527.0	90.3	88.1
2. Medical & public health, water supply and sanitation	6.1	59.5	65.6	21.9	183.9	205.8	90.7	89.3
3. Family welfare	0.6	8.7	9.3	3.0	19.2	22.2	93.5	85.9
4. Housing	2.2	5.5	7.7	21.6	17.4	39.0	71.4	44.6
5. Urban development	1.1	6.6	7.7	2.0	25.7	27.7	85.7	93.1
6. Labour & Employment	2.9	4.4	7.3	7.1	10.8	17.9	60.3	60.4
7. Social security and welfare	2.8	36.0	38.7	13.4	110.5	123.9	92.3	89.2
8. Others*	19.5	4.4	23.9	49.6	13.3	62.9	18.4	21.2
9. Social and Community services(1to8)	52.1	282.0	334.1	181.7	847.1	1028.8	84.4	82.3
10. Rural Development	5.0	46.5	51.5	55.5	99.3	154.8	90.3	64.2
11. Total (9+10)	57.1	328.5	385.6	237.1	946.4	1183.5`	85.2	80.0

* Others include scientific services&research, broadcasting, information& publicity.

Note : The information given in the table relates to actual expenditures.
Source: Computed from the data available in *Indian Public Finance Statistics*, Ministry of Finance, GOI, 1995, 2001

Total Social Sector Expenditure: Centre and States

Table 2 gives an overview of social sector expenditure a) as percentage of GDP, b) as percentage of aggregate expenditure, and c) as per capita real expenditures, all for the period 1987-88 to 2000-01 (cols.2 to 4). India spends around 6 to 8 per cent of its GDP on the social sector. In 1990-91, the share in GDP was 6.78 per cent. Only in 1998-99 a higher level was reached. Throughout the 1990s, social sector expenditure, in terms of percentage of GDP, was lower than that in the late 1980s. The recent increase in 1998-99 and 1999-00 can be partly due to an increase in salaries, as a result of the recommendations of the Fifth Pay Commission.

As per cent of aggregate expenditure, India spends between 24 to 28 per cent on the social sector. The percentage started to increase in the middle of the 1990s. Since 1995-96, the percentage is higher than that in the 1980s. In other words, a higher percentage of government expenditure goes to the social sector now than when the reforms started or during the last years preceding the reforms.

In terms of per capita real expenditure, social sector expenditure has continued to increase after 1993-94. Per capita expenditure has risen from Rs. 623 in 1990-91 to Rs. 959 in 2000-01, an increase of 54 per cent in 11 years. Unfortunately, our data do not allow us to compare this increase with the increase in the 1980s.

Some studies use only revenue expenditure for analysing social sector expenditure. The proportions in cols. 5 and 6 in (table 2 relate to revenue expenditures. The table shows that trends in revenue social sector expenditure as a proportion of GDP (col.5) are similar to those of col .2. (rev+capital). There are differences in the trends between col.3 and col.6. Unlike the trends in col.3, the social sector revenue expenditure as a proportion of aggregate revenue expenditure (col.6) has not shown any increase since the mid-1990s as compared to those for the 1980s. In the rest of our study we stick to the trends of revenue and capital expenditures taken together.

Table - 2

Social Sector (Social Services + Rural Development) Expenditure by Centre and States

	Social Sector Exp. (Revenue +Capital)			Social Sector Exp. (Revenue)	
Year	As % of GDP	As % of Agg.Pub. Exp. (Rev.+Capital)	Per capita exp (in Rs.) In 1993-94 prices	As % of GDP	As % of Agg.Pub. Exp. (Revenue)
1	2	3	4	5	6
1987-88	7.74	25.29	562	7.23	31.53
1988-89	7.40	25.22	583	6.95	30.97
1989-90	7.64	25.19	633	7.23	30.98
1990-91	6.78	24.85	623	6.43	30.00
1991-92	6.58	24.28	599	6.21	28.54
1992-93	6.39	24.06	594	6.06	28.83
1993-94	6.46	24.58	623	6.16	29.09
1994-95	6.41	25.01	633	6.06	28.74
1995-96	6.40	25.95	675	6.10	29.51
1996-97	6.48	27.22	739	6.15	29.13
1997-98	6.60	26.95	789	6.29	30.01
1998-99	6.94	27.36	890	6.60	30.41
1999-00(R)	7.55	27.69	1027	7.11	30.27
2000-01(B)	6.97	26.61	959	6.54	29.29

R: revised; B: budget; Source: Estimated based on data from *Indian Public Finance Statistics*, GOI, 1995 and 2000-01

Major Heads: Centre and States

Next we consider social sector expenditure by major heads.The share of education expenditure in GDP was around 3 per cent in 1990-91 (see Table 3).[11] This was higher than in any other year in the 1990s, with the only exception of 1999-00. As will be shown later, if we take education as per cent of GNP rather than GDP, the share comes to around 3.4 per cent.

In the budget data, health and water supply are given separately. In the *Indian Public Finance Statistics*, public health and water supply are combined, and therefore also in table 3. The share of this head increased slightly in the last two years of the 1990s. As will be shown later, if we look at health only, the expenditure was only 0.9 per cent of GDP in the late 1990s, a very low figure. The share for housing & urban development increased from 1996-97 onwards while that for social security and welfare started to increase from 1995-96. The share for food subsidy was 0.43 in 1990-91 and it hovered between 0.45 and 0.56 in the 1990s (except in 1993-94)

The percentage of GDP for total social services (i.e. excluding rural development) was 5.87 per cent in 1990-91. Only in the last two years of the 1990s this percentage was higher. In the case of rural development, the share was 0.91 per cent in 1990-91. It increased in 1993-94 and maintained this level till 1995-96. Thereafter it declined significantly.

In 1996-97, the United Front government introduced a programme for basic minimum services (BMS). It consisted of seven basic services (safe drinking water, primary education, primary health, housing, mid-day meals for primary school children, rural roads and strengthening public distribution system). The expenditure on BMS increased from Rs. 2466 crores in 1996-97 to Rs. 4048 crores in 1999-00.[12] The government indicated at the time that the BMS was an additional allocation for the social sector. However, looking at table 3, one gets the impression that the government has reduced expenditure on rural development in order to finance the BMS. In the post-1996-97 period, the percentage share for rural development declined further. In other words, there seems to be a shift from the traditional anti-poverty programmes (under rural development) towards basic needs in the post-1996-97 period.

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11. The major head under education includes expenditure on arts and culture but these form a minor proportion in the total.

12. In 2000-01, the BMS was replaced by Pradhan Mantri Gramodaya Yojana (PMGY) or Prime Minister's Village Development Plan with funds of around Rs.5000 crores.

Table - 3

Combined Expenditure of Central & State Governments on Social Sector as per cent of GDP at market prices (Plan &non-plan): Major Heads, 1990-91 to 2000-01

	90-91	91-92	92-93	93-94	94-95	95-96	96-97	97-98	98-99	99-00 (R)	2000-01(B)
1. Edu, sports, youth welfare	3.06	2.94	2.87	2.83	2.76	2.74	2.73	2.78	3.00	3.35	2.98
2. Public Health & water supply	1.15	1.12	1.11	1.11	1.10	1.05	1.05	1.11	1.17	1.22	1.17
3. Family welfare	0.16	0.16	0.14	0.16	0.15	0.15	0.13	0.14	0.13	0.15	0.16
4. Housing and Urban develop.	0.27	0.29	0.26	0.24	0.24	0.26	0.34	0.35	0.38	0.45	0.41
5. Broadcasting	0.11	0.09	0.08	0.08	0.07	0.07	0.08	0.08	0.07	0.08	0.04
6. Social security& welfare	0.68	0.70	0.68	0.62	0.63	0.73	0.68	0.70	0.70	0.77	0.76
7. Labour &Empl.	0.13	0.12	0.12	0.13	0.11	0.10	0.10	0.11	0.10	0.11	0.11
8. other social ser.	0.31	0.31	0.29	0.29	0.30	0.29	0.31	0.29	0.30	0.30	0.32
9. Food Subsidy	0.43	0.44	0.37	0.64	0.50	0.45	0.45	0.52	0.52	0.48	0.56
10. Total Social Services (1 to 8)	5.87	5.73	5.55	5.46	5.36	5.39	5.42	5.56	5.85	6.43	5.95
11. Rural devlop.	0.91	0.85	0.84	1.00	1.05	1.01	0.88	0.85	0.88	0.91	0.79
12. Basic Minimum services	—	—	—	—	—	—	0.18	0.19	0.21	0.21	0.23
Total (10+11+12)	6.78	6.58	6.39	6.46	6.41	6.40	6.48	6.60	6.94	7.55	6.97

R: revised; B: budget

Source: Same as table 1. For items 9 and 12 source is exp. budget GOI

Changes in the Composition of Social Sector Spending: Centre and States

Table 4 shows the changes in the composition of total social sector expenditure. Education is the major head. In 1990-91, 45 per cent of total social sector expenditure was spent on education. This declined to around 43 per cent in the course of the 1990s. The share of health and water supply has been around 17 per cent throughout the 1990s.

The share of social and community services was 87 per cent in 1990-91; it declined in the later part of the 90s. In the case of rural development, the share rose in the first half of the decade from 13.3 per cent in 1990-91 to 15.7 per cent in 1995-96, but declined significantly in the next few years, to 12.7 per cent in 1998-99. The share of basic minimum services was about 3 per cent in 1998-99. If we add this to social and community services, the latter's share would be more than 87 per cent, i.e. more than it was in the base year.

Table - 4

Changes in the Composition of Combined Social Sector Expenditure of Centre and States (%): Major heads

Major Heads	1990-91	1995-96	1998-99
Education, art and culture	45.1	42.5	43.2
Health, Water supply	17.0	16.4	16.9
Family Welfare	2.4	2.4	1.8
Housing & Urban Development	4.0	4.0	5.5
Broadcasting	1.6	1.1	1.0
Social Security and Welfare	10.0	11.7	10.2
Labour & Employment	1.9	1.6	1.5
Other Social Services	4.6	4.5	4.3
Social and Community Services	86.7	84.3	84.3
Rural Development	13.3	15.7	12.7
Basic Minimum Services	—	—	3.0
Total Social Sector	100.0	100.0	100.0

Source: Same as table 3

Expenditure on Education and Its Components

We have seen above that education is the main major head in the social sector. Table 5 provides the combined expenditure (centre+States) details on education sector separately and on its components. The table shows that in 1998-99, around Rs.50,200 crores were allocated to the education sector from the Education Department (col.7). Out of this amount, Rs.24,500 crores were allocated (around 49 per cent) to elementary education. As per cent of GNP, the share of education declined from 3.4 per cent in 90-91 to around 3.1 per cent in the late 90s. It may be noted that other departments also spend some part of their departmental expenditures on education[13] . If we add this expenditure, the share of education came to around 4.1 per cent in 1990-91 (col.10). This share declined over time to 3.6 and 3.8 in the mid and late 90s respectively. This percentage is well below the international norm of 6 per cent of GNP on education.

13. For a discussion on total expenditures on education, see Swaminathan and Rawal (1999).

Table 5 also provides intra-sectoral percentages on education for the 1990s. These expenditures relate to the funds spent by the education department only. The table shows that the share of elementary education increased from around 46 per cent in the early 1990s to 49 per cent in the late 1990s. There has been a decline in the shares of secondary, higher and technical education during the same period. As will be shown later, the shift to elementary education is mainly due to a significant increase in expenditure for elementary education by the Central Government.

Table - 5

Expenditure on Education (in Rs. Crores current prices) and its Composition 1990-91 to 1998-99

	Expenditure on Education (in Crores)							As % of GNP	
Year	Element-ary	Secon-dary	Technical	Higher	Others	Total exp. on edu.From edu. Dept.	Total exp. On edu. Including other dpts	Total exp. on edu. from edu. Dept.	Total exp. On edu. Includ-ing other dpts.
1	2	3	4	5	6	7	8	9	10
1990-91	7955.5	5631.1	753.0	2311.9	531.0	17182.5	20491.2	3.41	4.07
1991-92	8684.3	6198.8	809.5	2443.4	621.6	18757.6	22593.8	3.24	3.90
1992-93	9477.3	7178.1	907.1	2700.0	690.5	20953.0	25030.3	3.17	3.79
1993-94	10821.8	7768.6	1017.2	3103.6	701.9	23413.1	28279.7	3.04	3.68
1994-95	12638.9	9049.5	1189.3	3525.3	827.1	27230.1	32606.2	3.02	3.62
1995-96	15217.8	10344.1	1290.3	3871.3	783.3	31506.8	38178.1	2.99	3.61
1996-97	17850.5	11735.8	1450.0	4287.9	1031.2	36355.4	43896.5	2.97	3.59
1997-98*	21078.8	13107.6	1685.2	5047.1	1408.2	42326.9	51930.6	3.10	3.79
1998-99@	24456.2	15112.4	2130.5	6771.2	1747.8	50218.1	60856.5	3.14	3.81
	Intra-sectoral Allocation (%)								
Year	Element-ary	Secon-dary	Technical	Higher	Others	Total exp. on edu. from edu. Dept			
1990-91	46.3	32.2	4.4	13.9	3.1	100.0			
1991-92	46.3	33.0	4.3	13.1	3.3	100.0			
1992-93	45.2	34.3	4.3	12.9	3.3	100.0			
1993-94	46.2	33.2	4.3	13.3	3.0	100.0			
1994-95	46.4	33.2	4.4	13.0	3.1	100.0			
1995-96	48.3	32.8	4.1	12.3	2.5	100.0			
1996-97	49.1	32.3	4.0	11.8	2.8	100.0			
1997-98*	49.8	30.9	4.0	11.9	3.3	100.0			
1998-99@	48.7	30.1	4.2	13.5	3.5	100.0			

*Revised estimates

@Budget estimates

Source: Tilak (2001) taken from "Analysis of Budget Expenditure on Education" (various years) (New Delhi, MHRD)

2.2. Expenditures by Central Government

Although the share of the central government in total social sector expenditure is low (around 20 per cent), the Centre is nevertheless important, because it has a considerable influence on policy directions in the States. Moreover, as table 1 showed, the contribution of the Centre to overall social sector expenditure is increasing. Particularly in the area of rural development, the Centre is now responsible for a much higher percentage of overall rural development expenditure than in the early 1990s.

Table 6 gives an overview of central government expenditure between 1986-87 and 2000-01. As a proportion of GDP, central government expenditure for the social sector was 1.42 per cent in 1990-91. This percentage declined in the first two years of the reform period; it started to rise from 1993-94 onwards, and reached a peak of 1.67 per cent in 1998-99 before declining in the subsequent two years. The percentages in all the years since 1993-94 were higher than in the base year, but lower than in the late 1980s (except in 1998-99).

As a proportion of aggregate expenditure, social sector expenditure increased from 7.55 per cent in 1990-91 to 10.48 per cent in 1996-97. In spite of the introduction of the Basic Minimum Services (BMS), there is no further increase after 1996-97. Since 1993-94, the shares were higher than those of the late 1980s.

Table - 6

Social Sector (Social Services + Rural Development) Expenditure by Central Government

Year	As % of GDP	As % of Agg.Exp.	Per capita exp (in Rs.) In 1993-94 prices
1986-87	1.61	7.47	113
1988-89	1.59	7.90	124
1990-91	1.42	7.55	130
1991-92	1.25	7.23	114
1992-93	1.29	7.70	119
1993-94	1.49	8.92	144
1994-95	1.49	9.26	147
1995-96	1.54	9.97	162
1996-97	1.56	10.48	177
1997-98	1.60	10.35	191
1998-99	1.67	10.39	213
1999-00	1.59	10.22	216
2000-01(R)	1.58	10.24	217

R: revised

Source: Expenditure budgets of GOI, Vol.1

In terms of per capita real expenditure, social sector spending increased from Rs. 130 in 1990-91 to Rs. 217 in 2000-01, an increase of 65 per cent in 11 years.

Major Heads: Centre

The total expenditure on social services, taken as a percentage of GDP, declined in the first two years of the reform period and reached its lowest level in 1993-94 (see table 7). Since 1995-96, the share increased and reached a peak of 1.15% in 2000-01. Expenditure on rural development, which was 0.47% of GDP in 1990-91, showed a decline in the first two years of the reform period. The percentage increased in 1993-94. In the post 1996-97 period, however, there was a significant decline in the expenditure on rural development. Expenditure on BMS increased after 1996-97 (which was the year of its introduction).

Education received 0.30 per cent of GDP in 90-91. This percentage declined marginally in the first two years of the reform period. Between 1993-94 and 97-98, the expenditure was between 0.28 and 0.33 per cent. The percentage increased significantly in 98-99 to 0.38. In the case of health, there were no significant changes in the percentages. It remained between 0.20 and 0.25 over the entire 11-year period.

Changes in the Composition of Social Sector Spending : Centre

We have seen above that, in the case of combined expenditure of Centre and States, expenditure on social services was about 85 per cent of overall social sector expenditure, while expenditure on rural development was around 15 per cent.In the case of central government expenditure, the share of rural development in total social sector expenditure was much higher, i.e. till the mid-1990s (30 to 38%). After 1996-97 the percentage started to decline drastically (see table 8). In 2000-01, just 12 per cent of overall social sector expenditure was spent on rural development. While the share for rural development came down, the shares for water supply & sanitation and other social services increased and the BMS was newly introduced. Since rural development means, to a large extent, poverty schemes (such as JRY-type wage employment schemes and IRDP-type self employment schemes), we can conclude that there seems to be a definite shift from poverty alleviation schemes to human development programmes, as exemplified by the BMS.

Table - 7

Central Govt Exp on Social Sector (plan&non-plan) (as % of GDP)

	90-91	-92	-93	-94	-95	-96	-97	-98	-99	-00	-01(R)
1 Edu, Sport, Youth welfare etc	0.30	0.27	0.25	0.28	0.28	0.31	0.29	0.33	0.38	0.34	0.36
2 Health & family welfare	0.22	0.21	0.23	0.25	0.24	0.22	0.20	0.21	0.23	0.24	0.25
3 Water supply, sanitation, Housing & urban dev	0.15	0.14	0.11	0.15	0.13	0.15	0.22	0.22	0.23	0.22	0.21
4 Information&broadcasting	0.08	0.06	0.05	0.05	0.05	0.05	0.04	0.06	0.06	0.06	0.06
5 Labor & employment	0.05	0.05	0.05	0.06	0.04	0.04	0.04	0.04	0.04	0.04	0.04
6 Welfare of SC,ST&BC	0.06	0.06	0.07	0.07	0.07	0.07	0.06	0.05	0.05	0.05	0.05
7 Other Social services	0.09	0.10	0.11	0.10	0.10	0.15	0.14	0.15	0.14	0.19	0.12
8 Total Social Services(1 to 7)	0.95	0.90	0.86	0.95	0.91	0.98	1.00	1.04	1.12	1.14	1.15
9 Rural Development	0.47	0.35	0.43	0.54	0.57	0.56	0.37	0.37	0.33	0.24	0.19
10 Food Subsidy	0.43	0.44	0.37	0.64	0.50	0.45	0.45	0.52	0.52	0.48	0.56
11 Basis Minimum Services (BMS)							0.18	0.19	0.21	0.21	0.23
Total (8+9+11)	1.42	1.25	1.29	1.49	1.49	1.54	1.56	1.60	1.67	1.59	1.58

Table - 8

Shares of Major Heads in Social Sector Expenditure (Central Government)

	90-91	-92	-93	-94	-95	-96	-97	-98	-99	-00	-01(R)
1 Edu,Sport,youth welfare etc	20.92	21.47	19.55	18.53	18.63	19.90	18.81	20.58	22.55	21.48	22.88
2 Health & family welfare	15.80	16.91	17.92	16.74	16.06	13.94	12.97	13.03	13.63	15.23	15.78
3 Water supply, sanitation, Housing & Urban dev	10.28	11.43	8.20	9.84	8.99	9.63	13.94	13.57	13.91	13.60	13.29
4 Information&broadcasting	5.41	5.10	3.86	3.06	3.19	3.27	2.80	3.69	3.54	3.78	3.89
5 Labor & employment	3.59	4.37	3.61	4.10	2.93	2.78	2.77	2.31	2.42	2.74	2.65
6 Welfare of SC,ST&BC	4.32	5.13	5.08	4.40	4.95	4.39	3.93	2.98	3.13	3.18	2.94
7 Other Social services	6.45	7.68	8.36	6.86	6.64	9.87	9.20	9.11	8.25	11.75	7.88
8 Total Social Services(1 to 7)	66.77	72.07	66.58	63.52	61.38	63.77	64.41	65.27	67.43	71.75	73.25
9 Rural Development	33.23	27.93	33.42	36.48	38.62	36.23	23.96	22.93	19.99	15.21	12.19
10 Basic Minimum Services (BMS)							11.63	11.80	12.58	13.04	14.55
Total (8+9+10)	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: Same as Table 6

Minor Heads: Centre

The expenditure patterns by major heads do not reveal the trends in the expenditures of the main components within these heads. Table 9 disaggregates the heads to a certain extent. The classification under minor heads is different from that under the major heads. In the case of minor heads, the budgets seem to follow the classification used under the Central Plan outlays. This means that water & sanitation, social security & welfare come under rural development rather than under social services. As a result, we get a lower share of social service expenditure in GDP as compared to that for major heads, and a higher share for rural development.

In the case of health, there are no significant changes. The major components of education are: elementary education, secondary education, adult education and, univ. & higher education. The table shows that only in the case of elementary education, there was an increase in percentages since 1995-96. It increased from 0.05 per cent in 1994-95 to 0.12 per cent in 1995-96. This was mainly due to the introduction of the Midday Meal Programme in August 1995. The scheme is meant to boost universalisation of education and to improve the nutritional level of students in primary classes (I-VI). There were no significant changes in the other components of education.

The most significant changes can be found in the head 'Rural Development'. Poverty alleviation programmes (PAPs) form the main components under this head. The expenditure on rural development was 0.53 per cent of GDP in 1990-91. After the initial decline in the first two years of the reform period, the share increased considerably to 0.66 per cent in 1993-94. It stayed around 0.70 per cent till 1995-96, but it started to decline significantly from 1996-97 onwards. The breakdown into the various components shows that it is especially the share of rural employment schemes that declined so much. In part, this is related to the fact that in 1996 the Indira Awas Yojana (IAY) has been taken out from the JRY and included under housing,[14] but this does not explain the decline completely. In general, there seems to be a shift from direct employment schemes to basic services like drinking water, sanitation, housing, nutrition etc.

14. In 1999, Indira Awas Yojana was merged with Rural Housing.

Table - 9

Central Government Expenditure on Social Sector as per cent of GDP at market prices (Plan &non-plan): Minor Heads, 1990-91 to 2000-01

	90-91	91-92	92-93	93-94	94-95	95-96	96-97	97-98	98-99	99-00	2000-01(B)
1. Food Subsidy	0.43	0.44	0.37	0.61	0.50	0.47	0.45	0.52	0.51	0.48	0.56
2. Health	0.08	0.08	0.09	0.09	0.09	0.09	0.09	0.10	0.10	0.09	0.09
Public Health	0.03	0.03	0.04	0.04	0.04	0.04	0.04	0.040	0.04	0.04	0.04
3. Family welfare	0.14	0.13	0.14	0.15	0.14	0.13	0.11	0.12	0.13	0.16	0.15
Rural Family	0.04	0.03	0.04	0.04	0.03	0.03	0.03	0.03	0.03	0.05	0.04
4. Education	0.29	0.27	0.24	0.26	0.25	0.31	0.27	0.310	0.36	0.37	0.38
(a) General edu.	0.22	0.21	0.20	0.21	0.20	0.26	0.23	0.27	0.31	0.32	0.33
(i) Elementary edu.	0.04	0.04	0.05	0.05	0.05	0.12	0.12	0.15	0.16	0.15	0.14
Nutrition Support	—	—	—	—	—	0.05	0.06	0.07	0.08	0.08	0.06
(ii) Secondary edu.	0.07	0.06	0.06	0.07	0.06	0.06	0.05	0.05	0.06	0.05	0.05
(b) Technical Edu.	0.06	0.05	0.05	0.05	0.05	0.04	0.04	0.04	0.05	0.05	0.05
5. Women & child development	0.06	0.06	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.06
Child welfare	0.06	0.05	0.06	0.06	0.06	0.06	0.05	0.06	0.06	0.06	0.05

(Contd.....)

Table - 9 (cont..)

Central Government Expenditure on Social Sector as per cent of GDP at market prices (Plan &non-plan): Minor Heads, 1990-91 to 2000-01

	90-91	91-92	92-93	93-94	94-95	95-96	96-97	97-98	98-99	99-00	2000-01(B)
6. Rural Development	0.53	0.46	0.48	0.66	0.73	0.70	0.58	0.55	054	0.48	0.54
(a) water supply& sanitation	0.07	0.10	0.06	0.09	0.09	0.10	0.08	0.09	0.09	0.09	0.10
(b) Special prog. for rural dev.	0.08	0.07	0.07	0.10	0.08	0.08	0.06	0.06	0.05	0.06	0.03
IRDP	0.06	0.05	0.05	0.07	0.06	0.05	0.04	0.03	0.04	0.04	0.03
(c) Social Security& Welfare	—	—	—	—	—	0.05	0.04	0.03	0.04	0.04	0.03
National social assistance scheme	—	—	—	—	—	0.05	0.04	0.03	0.04	0.04	0.03
(d) Rural Employment	0.35	0.28	0.34	0.45	0.46	0.40	0.26	0.25	0.23	0.19	0.13
JRY	0.35	0.28	0.34	0.38	0.35	0.25	0.12	0.13	0.12	0.09	0.06
EAS	—	—	—	0.07	0.11	0.15	0.14	0.13	0.11	0.10	0.07
(e) Other rural dev. Prog.	0.01	0.01	0.00	0.01	0.01	0.03	0.04	0.04	0.03	0.01	0.16*
Million Wells Scheme	—	—	—	—	—	0.02	0.03	0.02	0.02	0.00	0.00
(f) Housing	0.0	0.00	0.00	0.00	0.00	0.04	0.09	0.08	0.09	0.08	0.07
Rural Housing	0.0	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.08	0.07
Indira Awas Yojana	—	—	—	—	—	0.04	0.09	0.08	0.09	0.00	0.00

(Contd.....)

Table - 9 (cont..)

Central Government Expenditure on Social Sector as per cent of GDP at market prices (Plan &non-plan): Minor Heads, 1990-91 to 2000-01

	90-91	91-92	92-93	93-94	94-95	95-96	96-97	97-98	98-99	99-00	2000-01(B)
7. Urban Dev & Poverty Alleviation	0.07	0.07	0.076	0.06	0.06	0.06	0.06	0.07	0.07	0.06	0.06
Urban dev.	0.07	0.07	0.06	0.06	0.06	0.04	0.04	0.05	0.05	0.05	0.05
8. Welfare of SC?ST	0.10	0.12	0.11	0.012	0.12	0.11	0.10	0.080	0.09	0.10	0.09
Welfare of SC	0.05	0.05	0.04	0.05	0.04	0.04	0.04	0.03	0.03	0.03	0.03
Welfare of ST	0.05	0.05	0.05	0.06	0.05	0.05	0.05	0.04	0.03	0.03	0.03
9. Basic Minimum Services (BMS)	—	—	—	—	—	—	0.18	0.19	0.21	0.21	0.23

B: budget

* Significant increase in 2000-01 for other rural dev. Programmes was due to introduction of rural roads scheme known as Pime Minister's Gram Samrudhi Yojana (PMGSY)

Note: All the data in this table refer to revised estimates

Source: Vol II, budget papers GOI

Intra Sectoral Allocations in Education, Health and Rural Development

It is important to analyse about the intra-sectoral allocations in different sectors in order to understand the social priorities. Table 10 provides these allocations for education, health& family welfare and rural development. It shows that there have been significant shifts over the 1990s within these sectors. The findings from Table 10 are summarized as follows.

(a) In education, there has been a sharp increase in the share of elementary education particularly since 1995-96. This share increased from about 13.6 per cent in 1990-91 to 40 per cent in 1995-96 and to 48 per cent in 1997-98. Since 1998-99, however, the share has declined and it was 38 per cent in 2000-01, which is much higher than the shares of the early 1990s. The shift in favour of elementary education was due to the introduction of nutrition programmes and District Primary Education Programme (DPEP) since the mid-1990s. The emphasis on elementary education led to a decline in the shares of secondary, unversity&higher and technical education. The share of secondary education declined since the mid-1990s. In the case of university&higher education, the share declined till mid1990s but recorded a rise in the late 1990s. The increase in the share of university and higher education led to reduced shares for elementary education in the late 1990s.

(b) The intra-allocations for health& family welfare shows that the share of public health has increased over time. Although the share started declining since late 1990s, it was still much higher than that at the beginning of the decade. There was a sharp increase in the share of reproduction & child health from around 7 per cent in 1990-91 to 15 per cent in the late 1990s. In the case of rural family welfare the allocations declined in the mid-1990s before picking up in the late 1990s. Similar trends can be observed for other services& supplies. The share of 'others' category declined in the 1990s.

(c) In the case of rural development, the share of rural wage employment programmes declined drastically since the mid-1990s. Similar trend can be seen for special programmes like self employment programmes (e.g. IRDP). There has been a sharp shift in the allocations to housing, social sector & welfare and water supply & sanitation.

Table -10

Intra-sectoral Allocation (%) in Education, Health and Rural Development: Central Government Expenditures

1990-91 to 2000-01

	90-91	91-92	92-93	93-94	94-95	95-96	96-97	97-98	98-99	99-00	2000-01(B)
EDUCATION											
Education Sector	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Elementary	13.6	15.5	18.6	20.2	20.5	39.6	42.0	48.1	42.9	39.0	37.7
Secondary	23.5	24.4	25.0	25.6	24.1	19.9	19.0	15.0	15.5	14.4	14.3
University & higher	28.6	28.7	28.0	24.9	25.6	19.9	19.5	20.2	25.1	29.6	31.0
Adult	8.3	6.4	6.3	7.8	8.5	4.7	3.1	1.8	1.3	1.1	1.3
Technical	19.0	18.4	18.7	18.3	18.6	14.0	14.5	13.0	13.6	14.1	13.5
Others	7.0	6.6	3.4	3.2	2.7	1.9	1.9	1.9	1.6	1.8	2.2
HEALTH AND FAMILY WELFARE											
Health & Family welfare.	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Public health	13.0	12.9	16.6	16.6	18.0	17.7	19.7	18.9	16.4	14.1	14.8
Medical education	13.5	12.9	13.6	12.4	12.3	12.2	12.3	13.1	15.2	13.1	13.9
Rural family welfare.	16.2	15.0	17.2	15.8	13.2	13.7	12.4	13.9	15.3	21.4	16.2
Maternal&child healt	6.9	7.2	5.4	6.0	6.3	11.0	11.9	13.6	15.3	13.6	15.2
Other serv.&supplies	21.8	21.9	21.1	26.2	28.5	23.1	19.5	17.6	16.5	17.9	20.2
Others	28.6	30.1	26.1	23.0	21.7	22.3	24.2	22.9	21.3	19.7	19.6

(Contd.....)

Table -10

Intra-sectoral Allocation (%) in Education, Health and Rural Development: Central Government Expenditures 1990-91 to 2000-01

	90-91	91-92	92-93	93-94	94-95	95-96	96-97	97-98	98-99	99-00	2000-01(B)
RURAL DEVELOPMENT											
Rural Development	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Water supply&sanitation	14.1	21.3	13.3	13.6	13.2	14.1	14.7	16.7	17.7	19.3	17.8
Special programmes	15.8	15.7	13.8	14.5	12.9	10.7	10.6	10.4	9.6	12.1	5.9
Social sec.&welfare	—	—	—	—	—	6.6	7.0	5.8	6.8	7.6	6.2
Rural wage emp.programmes	67.0	60.4	70.5	68.9	70.8	57.3	44.5	46.0	42.8	39.8	23.7
Other rur.dev. programmes	1.2	1.3	1.0	1.0	1.2	4.0	6.4	5.8	5.3	1.9	29.6
Housing	—	—	0.1	0.2	0.3	5.9	15.2	13.6	16.2	17.7	12.6
Others	1.9	1.3	1.3	1.8	1.6	1.4	1.6	1.7	1.6	1.6	4.2

Note: (1). All the data in this table refer to revised estimates; (2). Others in health& family welfare refer to central govt. health schemes, hospitals& dispensaries, urban family welfare. Maternal & child heath was replaced by reproductive & child health in 1998-99; (3). Special programmes for rural development refer to IRDP, TRYSEM, DPAP, Desert Area dev. Programme etc. Rural wage employment programmes are JRY and EAS. Other rural dev. Programmes refer to DWCRA, rural roads, million wells scheme and training.

* Significant increase in 2000-01 for other rural dev. Programmes was due to introduction of rural roads scheme known as Pime Minister's Gram Samrudhi Yojana (PMGSY)

Source: Vol II, budget papers GOI

External Aid for Social Sector: Centre

Over time, the contribution of external aid to social sector expenditure has increased. The main donors/lenders include international organisations such as World Bank, several organs of the United Nations and DFID (the British Department for International Development). We do not have sufficient information to examine the importance of this contribution in all the major heads of the social sector, but we have information on sectoral spending on children, as shown in table 11.

This table shows that the share of external aid in sectoral spending on children in the Union budget has increased from 0.5 per cent in 1990-91 to around 29 per cent in 1997-98. On average for the 1990s, out of every 100 rupees spent on children around 20 rupees came from external aid[15]. The share of external aid is the highest for children in the health sector. More than 50 per cent of child health expenditure came from external sources.

Table - 11

Share of External Aid in Sectoral Spending on Children (Union Budget) (%)

Year	Health	Child Development	Education	Total
1990-91	---	---	1.4	0.5
1991-92	32.2	16.5	2.5	13.4
1992-93	53.3	13.4	4.9	17.1
1993-94	50.6	16.7	10.3	22.7
1994-95	53.2	13.1	20.6	26.2
1995-96	40.6	12.4	19.6	21.7
1996-97	33.6	21.6	13.6	19.5
1997-98	56.3	13.0	26.9	28.6
1998-99	79.0	9.9	22.5	25.3
1999-00	63.6	15.0	25.0	25.9
Average	51.4	14.6	16.4	20.1

Source: HAQ (2001)

2.3. Expenditure by States

As mentioned above, the main responsibility for social sector expenditure lies with the States. Earlier studies by Prabhu (1997), UNDP (1997) and Chelliah and Sudarshan (1999) have shown that social sector expenditure, either taken as a proportion of GSDP (Gross State Domestic Product) or as a proportion of aggregate expenditure, started declining for the majority of the States since the mid 1980s.

15. For more information on this see Haq (2001).

This trend continued in the early 1990s. In our study, we cover the entire decade of the 1990s. The analysis is done in two steps. First, we look at the trends in the aggregate 25 States. Second, we examine trends for each of the major 15 States.

Total Social Sector Expenditure: Average of 25 States

Table 12 shows the average level of social sector expenditure for 25 States, a) as a percentage of GSDP, and b) as a percentage of aggregate expenditure for the average of 25 States. As percentage of GSDP, social sector expenditure was almost 6 per cent in 1990-91; as a percentage of aggregate expenditure, social sector expenditure was almost 40 per cent in 1990-91. Both ways, States did worse in the rest of the 1990s as compared to this base year (with only one exception).

One could argue that, as compared to the Centre, the performance of the States is worse in the 1990s. If 1990-91 is taken as a base year, the Centre eventually increased its expenditures on the social sector (taken as percentage of GDP, as percentage of overall expenditure or in terms of real per capita expenditure). The aggregate States, however, have not been able to do so. This presentation is, however, slightly misleading. One can also argue that the rise in central government expenditure is partly funded by cutting down the central allocations for the State Plans.[16]

Table -12
Social Sector Expenditure (Social Services+Rural Development)
Of 25 States Excl. NCT Delhi

Year	As % of GSDP	As % of Aggregate Exp.
1990-91	5.98	39.20
1991-92	5.85	37.20
1992-93	5.72	37.60
1993-94	5.57	35.64
1994-95	5.27	34.82
1995-96	5.33	37.31
1996-97	5.13	36.21
1997-98	5.18	36.52
1998-99	5.41	38.07
1999-00	6.06	38.60
2000-01	5.46	35.80

Source: RBI Bulletins

16. See also Sarma (2001).

Composition of Social Sector Expenditure: Average of 25 States

Table 13 shows the composition of overall State social sector expenditure. Education is the main head. Its share increased, especially after 1993-4. The share of rural development declined in the latter half of the 1990s.

Table - 13
Shares of Major Heads in Social Sector Expenditure of 25 States Excl. NCT Delhi(%)

Major Heads	1990-91	1993-94	1996.97	1998-99
1. Education, art and culture	46.5	45.5	47.1	48.5
2. Health & Family Welfare	14.2	14.4	13.7	13.2
3. Water supply & sanitation Housing & Urban Development	9.4	9.7	10.7	11.4
4. Welfare of Sc, ST & BC	5.6	5.7	6.1	5.8
5. Labour & Employment	1.3	1.2	1.1	1.1
6. Other Social Services	8.9	8.0	10.0	8.8
7. Total Social Services (1 to 7)	85.9	84.5	88.7	88.8
8. Rural Development	14.1	15.5	11.3	11.2
Total Social Sector (8+9)	100.0	100.0	100.0	100.0

Source: Same as Table 12

Major Heads: 15 Major States

Table 14 gives State-wise social expenditure figures, as percentages of GSDP. The percentages for education in 1990-91 were relatively high in Goa, Kerala, Bihar, Orissa, Tamil Nadu and Rajastan. The shares declined in all the States between 1990-91 and 95-96. Only four States (Haryana, Orissa, Punjab, Rajasthan) witnessed an increase between 90-91 and 98-99. In the case of health, the percentages in 90-91 were relatively high in Goa, Kerala, West Bengal, Orissa and Bihar. In most States the percentage declined in the course of the 1990s (with the exception of Haryana, Punjab, Rajasthan and marginally in Madhya Pradesh). Trends in the percentages of water supply and sanitation are mixed, with some States showing increases over the 1990s.

Table - 14

Total Expenditure of major States on Social Sector (at current Prices)

(as percentage of NSDP)

	Education, Sport, Art& culture			Health & Family Welfare			Total Social Services			Rural Development		
	90-91	95-96	98-99	90-91	95-96	98-99	90-91	95-96	98-99	90-91	95-96	98-99
AP	3.26	2.40	2.77	1.06	0.84	1.01	6.92	6.56	6.98	1.52	0.81	1.44
BIH	5.45	5.07	4.46	1.43	1.65	1.01	8.82	8.34	6.89	1.46	1.09	2.36
GOA	7.35	4.53	5.89	3.18	1.80	2.05	14.65	9.09	11.15	0.54	0.21	0.25
GUJ	3.79	2.93	3.54	1.04	0.73	0.99	6.92	5.02	6.63	1.12	0.55	0.69
HAR	2.71	2.55	3.24	0.71	0.64	0.80	5.48	6.48	5.82	0.57	0.27	0.16
KAR	3.91	3.24	3.29	1.21	0.97	1.01	7.57	6.31	6.29	1.23	0.63	0.49
KER	6.53	4.15	3.51	1.82	1.19	1.02	10.79	6.78	6.06	1.03	0.56	1.73
MP	3.64	2.95	3.31	1.06	0.84	1.08	7.45	6.18	7.34	1.51	1.38	1.24
MAH	2.99	2.54	2.50	0.86	0.62	0.55	5.44	4.59	4.54	0.86	0.85	0.52
ORI	4.78	3.96	4.81	1.45	1.11	1.32	9.16	7.92	9.02	2.02	0.82	1.11
PUN	3.09	2.64	3.87	1.01	0.75	1.16	5.43	4.77	6.07	0.16	0.13	0.12
RAJ	4.54	4.16	5.35	1.41	1.40	1.65	8.84	8.61	10.65	1.28	0.84	0.66
TN	4.67	3.16	3.73	1.41	1.02	1.11	9.18	6.46	6.96	1.18	0.46	0.54
UP	4.32	3.34	3.77	1.37	1.03	0.85	7.12	5.55	6.00	1.93	0.78	0.81
WB	4.39	2.98	3.03	1.46	0.95	1.14	7.48	5.14	5.71	1.17	0.85	0.73
Avg	4.01	3.14	3.43	1.21	0.93	0.97	7.32	5.97	6.37	1.25	0.75	0.85

Source: RBI Bulletins

The GSDP share for total services was relatively high in Goa, Kerala, Tamil Nadu, Orissa, Rajasthan and Bihar in 1990-91. A comparison between 1990-91 and 95-96 shows that the shares declined in all States except in Haryana. A comparison of 1990-91 and 98-99 shows further that only in four States (Haryana, Punjab, Rajasthan and Andhra Pradesh) there was some increase in spending on social services. In the rest of the States there was either a decline or there were no major changes. As for rural development, the percentages in 1990-91 were relatively high in Orissa, Uttar Pradesh, Madhya Pradesh and Andhra Pradesh, Bihar. In all but two States (Bihar and Kerala), the percentage declined in the course of the 1990s.

In short, in the post-reform period, in most of the States, the proportion of GSDP spent on social services (including health and education) and rural development declined.

One gets a different picture when the trends are seen in terms of real per capita expenditure, rather than as percentages of GSDP. This is true because, even when percentages of GSDP remain stable or decline, per capita real expenditure may go up. But it is also true because States with a very low GSDP (like Bihar and Orissa) may top-rank in terms of proportion of GSDP spent on the social sector, but come at the bottom end when one looks at per capita real expenditure (see table 15). The per capita expenditure in Bihar was only Rs. 476 as compared to Rs. 879 for the average of 15 States in 1998-99. Bihar's per capita expenditure on total services was 40 per cent of that in Gujarat. Per capita expenditure is also low in Orissa, but high in Goa, Gujarat, Punjab and Tamil Nadu.

Table - 15

Per capita Expenditure in Total Social Services in 1998-99

(in Rs. current prices)

States	Per capita exp. (Rs.)	States	Per capita exp (Rs.)
Andhra Pradesh	973	Maharashtra	1045
Bihar	476	Orissa	782
Goa	3069	Punjab	1157
Gujarat	1211	Rajasthan	1037
Haryana	1111	Tamil Nadu	1205
Karnataka	1001	Uttar Pradesh	571
Kerala	1096	West Bengal	740
Madhya Pradesh	942	*Weight. Ave.of 15 States*	879

Source: RBI Bulletins

Table 16 is also based on per capita real expenditures. In this table, the States are clustered according to their per capita SDP, and divided into three categories: rich, middle and poor States[17] . 1990-91 is taken as a base-year. Generally, the increase in per capita expenditure is much more in the second half of the 1990s than in the first half, and higher for social services than for rural development. Comparing 1998-99 with 1990-91, the richer States did slightly better (in terms of percentage increase) than middle-income or poorer States in education and social sector generally. The middle-income States performed better in health and rural development. The intra-group variation is, however, considerable, which makes it difficult to draw group-wise conclusions. West Bengal, for instance, has done much worse in education than the other middle income States. With regard to health, Bihar and UP do much worse than the other poor States. In the case of rural development, all except 5 States recorded a decline in the index in 1998-99 as compared to that of 1990-91. There has been an unprecedented increase in the expenditures on rural development in Kerala and Bihar in 1998-99. On the other hand, there has been a significant decline in rural development expenditures in Haryana.

17. This categorisation was made by Tulasidhar (1997) and used in UNDP (1997)

Table -16

Index of Per Capita Real Expenditure on Social Services and Rural Development (at 93-94 prices) at State Level

	Education, Sport, Art & Culture			Medical, Health Family Welfare			Social Services			Rural Dev.		
	90-91	95-96	98-99	90-91	95-96	98-99	90-91	95-96	98-99	90-91	95-96	98-99
GOA	100	94	131	100	86	105	100	94	125	100	58	77
GUJ	100	113	153	100	102	155	100	106	157	100	71	101
HAR	100	107	161	100	103	152	100	135	143	100	55	39
MAH	100	117	137	100	100	106	100	116	137	100	137	99
PUN	100	97	151	100	85	139	100	100	135	100	95	93
Rich sub-total	**100**	**111**	**145**	**100**	**98**	**127**	**100**	**113**	**142**	**100**	**108**	**94**
AP	100	96	132	100	104	149	100	124	157	100	70	148
KAR	100	119	153	100	115	151	100	120	152	100	73	73
KER	100	106	122	100	109	126	100	105	127	100	90	378
TN	100	99	146	100	106	144	100	103	139	100	58	84
WB	100	80	101	100	76	115	100	81	112	100	86	92
Middle Sub-total	**100**	**98**	**129**	**100**	**99**	**135**	**100**	**105**	**136**	**100**	**73**	**127**
BIH	100	101	112	100	126	98	100	103	107	100	81	221
MP	100	111	153	100	108	170	100	114	165	100	126	138
ORI	100	115	150	100	106	135	100	120	146	100	56	82
RAJ	100	111	145	100	119	143	100	117	148	100	79	63
UP	100	89	123	100	87	87	100	90	118	100	46	59
Poor Sub-total	**100**	**101**	**132**	**100**	**105**	**116**	**100**	**104**	**133**	**100**	**70**	**98**
Total	**100**	**103**	**135**	**100**	**101**	**127**	**100**	**107**	**137**	**100**	**79**	**107**

Source: Estimates based on data from RBI Bulletins

Education: States

We have seen above that education is the major head in the social sector at the State level. Here we look at the shares of education and elementary education in SDP and the share of elementary education in the total education sector. These proportions are given in table 17. The share of education in NSDP was lower in eight states as compared to that for the average of States. It was particularly lower in Harayana, Punjab, Maharashtra and Andhra Pradesh. On the other hand, the poorer States Bihar, Orissa and Rajasthan showed higher percentages. In the majority of the States, the share of education in NSDP declined between 1990-91 and 1995-96. On average, for all States, 50 per cent of total education expenditure was for elementary education in 1990-91. The poorer States seem to be allocating a higher share to primary education as compared to the richer States. Between 1990-91 and 1995-96, the share of elementary education in total education expenditure declined in Andhra Pradesh, Himachal Pradesh, Kerala, West Bengal and Punjab. In the case of Punjab and West Bengal, only 31 per cent and 32 per cent respectively of the total education expenditure was spent on elementary education in 1995-96.

Table -17

Percentage Shares of Expenditures on Education and Elementary Education in NSDP

	Share of Education Exp. in NSDP (%)		Share of Elementary Educ. Exp.in NSDP (%)		Share ofElementary Educ. Exp. in Total Education Exp.	
	1990-91	1995-96	1990-91	1995-96	1990-91	1995-96
AP	3.3	3.0	1.5	1.2	45.5	40.0
ASSAM	4.8	6.6	2.7	3.7	56.3	56.1
BIH	5.5	5.1	3.5	3.3	63.6	64.7
GUJ	3.9	3.5	2.0	1.9	51.3	54.3
HAR	2.8	2.5	1.2	1.1	42.9	44.0
HP	7.5	7.3	4.0	3.8	53.3	52.1
KAR	3.8	3.9	1.9	2.0	50.0	51.3
KER	6.2	6.6	3.2	3.2	51.6	48.5
MP	3.6	3.4	2.1	2.1	58.3	61.8
MAH	3.1	2.7	1.3	1.2	42.0	44.4
ORI	4.5	4.8	2.5	2.7	55.6	56.3
PUN	3.1	2.6	1.0	0.8	32.3	30.8
RAJ	4.6	5.0	2.5	2.7	54.3	54.0
TN	4.6	3.8	2.2	1.9	47.8	50.0
UP	4.1	3.7	2.3	2.1	56.1	56.8
WB	3.7	3.7	1.4	1.2	37.8	32.4
All States	4.0	3.7	2.0	1.8	50.0	48.6
Centre	0.4	0.4	0.1	0.2	25.0	50.0
All India (Centre+States)	4.1	3.8	1.9	1.8	46.3	47.4

Source: Computed from Shariff and Ghosh (2000)

2.4. Comparisons with Other Countries and International Norms

In this section we compare social sector expenditures in India with those in some other countries and with some international norms.

Table 18 compares India with a) South Asia generally, b) East Asian countries, and c) all developing countries. It is clear that the total public expenditure as per cent of GDP is much higher in India as compared to the averages of the other groups. However, the share of public expenditure allocated to social services is much lower in India than in East Asian countries and all developing countries. The share for education in public expenditure is also lower than in East Asian countries (but much higher than in South Asia generally). In the case of health, India's public expenditure allocation is low, even compared to other South Asian countries. The data for India in this table are from 1992-93, but given the fact that in India no major jumps in expenditures have taken place, we suspect this international comparison is still relevant.

Table - 18

Composition of Public Expenditure in India and Developing Countries

Major Heads	India (1992-3)	All South Asian Countries (1985-9)	All East Asian Countries (1985-9)	All Developing Countries (1990)
Total expenditure – GDP Ratio	27.9	21.3	22.5	20.8
Gen. Adm. & Pub. Order	11.6	17.2	17.3	15.3
Defence	11.7	12.0	10.9	1.0
Economic services	29.8	30.6	30.6	21.1
Education	13.5	9.0	20.5	13.6
Health & Family Welfare	2.9	4.2	7.0	5.9
Housing and Community Services	4.6	5.4	2.2	2.7
Other Social Services	3.9	7.9	3.8	9.1
Total Social Services	25.3	26.5	33.5	31.3
Other Expenditure	21.6	13.7	7.5	21.3
Total Expenditure	100.0	100.0	100.0	100.0

Source: M.G. Rao (1995) quoted in Mundle and Rao (1997)

Table 19 presents the latest international data on public expenditure allocation to education and health in India and a number of other countries. Education expenditure (taken as a percentage of GDP or as a percentage of overall public expenditure) was lower in India than in Egypt, Malaysia, Korea and Thailand. Health expenditure is also very low in India as compared to the other countries listed in the table. On the other hand, private expenditure on health is higher in India than in many other countries. As mentioned earlier, India's present HDI (Human Development Index) rank is 115. The need to step up social sector expenditure and improve utilization of the funds is obvious.

Table -19

Public Expenditure on Education and Health : International Comparisons

Countries	Education			Health		HDI rank
	As % of GNP 1995-97	As % of total govt. Exp. 1995-97	Primary and secondary as% of all education	Public Exp. as % of GDP	Private as % of GDP	
India	3.2	11.6	66.0	0.9	4.2	115
Bangladesh	2.2	13.8	88.6	1.7	1.9	132
China	2.3	12.2	69.6	2.1	–	87
Egypt	4.8	14.9	–	1.8	–	105
Korea	3.7	17.5	81.9	2.3	2.8	27
Malaysia	4.9	15.4	63.0	1.4	1.0	56
Sri Lanka	3.4	8.9	65.3	1.4	1.7	81
Thailand	4.8	20.1	70.4	1.9	4.1	66
Sweden	7.3	12.2	72.8	6.7	1.3	4
Canada	6.9	12.9	–	6.3	2.8	3
United States	5.4	14.4	74.8	5.8	7.3	6
U.K.	5.3	11.6	76.3	5.0	1.1	14

Source: UNDP, Human Development Report, 2001

International Norms

The United Nations Development Programme (UNDP) has proposed the following four ratios for comparing and monitoring social sector expenditure at the country level (UNDP, 1991).

- The Public Expenditure Ratio: The percentage of national income that goes into public expenditure. The recommendation is to keep this ratio around 25%.
- The social allocation ratio: the percentage of public expenditure earmarked for social services. This ratio, according to the UNDP, should be more than 40%.
- The social priority ratio: the percentage of social expenditure devoted to human priority concerns. This ratio has to be more than 50%.
- The human expenditure ratio: the percentage of national income devoted to human priority concerns. This ratio is the product of the above three ratios and the UNDP recommends that it should be about 5%.

The Human Development Report 1991 provides these ratios for India – the data refer to the late 1980s. India had a public expenditure ratio of 37%. The social allocation ratio and the social priority ratio were 20% and 34% respectively. The human expenditure ratio was 2.5 per cent. In short, India's public expenditure ratio was much higher than the norm of 25% while the other ratios were much below the norms.

It is not clear to us how the Human Development Report arrived at this public expenditure ratio. According to our estimates, this ratio was between 23 and 29 per cent in the 1990s. According to our calculations, in 1998-99 the public expenditure ratio and the social allocation ratios were 25.4 per cent and 27.4 per cent respectively. The social priority ratio was around 40 per cent in the same year[18]. The human expenditure ratio (the product of all the three ratios) comes to 2.78 per cent. This is much below the 5 per cent norm given by UNDP.

We have calculated the public expenditure ratio and social allocation ratio for the Indian States in the 1990s (see table 20). Of course, we realise that the recommended levels are developed for countries as a whole and not for States that are part of a federal structure. Countries as a whole can be expected to have a different expenditure pattern than the constituent parts (the States), depending on the distribution of responsibilities between the States and the Centre. In India, many social sector activities are State responsibilities, while defence, for instance, is an important expenditure item for the Centre. In this light, one can expect higher social allocation ratios for the States than for the country as a whole.

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18. We defined the social priority ratio as the share of social sector allocation for elementary education, water& sanitation, public health, maternal& child health and child nutrition.

In most States, public expenditure as a percentage of NSDPs , is lower than the recommended value, and in most States it has declined in the 1990s. Only in Goa, Haryana, Punjab and Rajasthan it increased in the 90s. The social allocation ratio (weighted average for the 15 States) was around 33.7 per cent in 1990-91, which is below the norm of 40 per cent. This ratio has not increased in the 1990s. Even if we add the State expenditures on rural development, the average social allocation ratio does not exceed 40 per cent.

There are considerable inter-State variations. Rajasthan is the only State with a social allocation ratio above 40 per cent in 2000-01. When we include rural development, Bihar and Kerala can be added to the list. In most States, the combined rural development and social services ratio is lower in 2000-01 than a decade earlier, but the exceptions are Bihar and Karnataka. There are considerable declines in Goa, Madhya Pradesh, Tamil Nadu, Uttar Pradesh and West Bengal. One has to be cautious, however, when drawing conclusions from these observations. Although the combined social services and rural development ratio almost halved in Goa in the 1990s, the absolute level of its social sector spending is still more than three times that of the weighted average of all 15 States.

Information for estimating social priority ratios is not readily available. Prabhu (2001) estimates the social priority ratio for Maharashtra and Tamil Nadu during the period 1988-89 to 1995-96. Mer study shows that the social priority ratios were around 36 to 38 per cent for Maharashtra and 37 to 43 per cent for Tamil Nadu. The human expenditure ratio was 1.84 per cent and 2.98 per cent for Maharashtra and Tamil Nadu respectively in 1995-96. The higher ratio for Tamil Nadu was partly due to a higher percentage of public expenditure in GDP. But, the ratios for both States were lower than those recommended by UNDP's Human Development Report (1991).

Table -22

State-wise Hunan Development Expenditure Ratios

	AGG EXP as % NSDP			EXP on Social Services as % of Aggregate Expenditure				EXP on Social Services & Rural Dev			
	90-91	95-96	98-99	90-91	95-96	98-99	00-01	90-91	95-96	98-99	00-01
AP	20.45	19.32	19.79	33.86	33.94	35.26	32.85	41.29	38.13	42.55	39.47
BIH	26.14	22.40	20.21	33.75	37.22	34.11	33.84	39.34	42.08	45.76	42.25
GOA	37.17	33.34	39.72	39.41	27.31	28.05	22.52	40.99	27.86	28.69	22.95
GUJ	21.91	16.30	20.97	31.58	30.82	31.60	31.11	36.71	34.18	34.89	34.62
HAR	18.98	23.21	21.54	28.89	27.93	27.01	27.68	31.86	29.11	27.75	28.43
KAR	23.47	19.24	17.82	32.28	32.78	35.30	34.10	37.50	36.04	38.05	37.76
KER	26.45	19.26	18.17	40.79	35.22	33.36	34.96	44.70	38.10	42.88	43.00
MP	21.21	17.99	19.67	35.10	34.35	37.30	32.66	42.22	42.04	43.59	36.85
MAH	17.94	14.29	13.78	30.31	32.08	32.94	32.60	35.08	38.05	36.69	34.28
ORI	29.18	22.37	26.19	31.38	35.39	34.44	31.49	38.30	39.04	38.68	34.57
PUN	19.48	19.13	21.61	27.88	24.93	28.07	25.67	28.71	25.62	28.64	26.78
RAJ	23.22	25.77	26.43	38.06	33.41	40.31	41.25	43.60	36.68	42.80	43.45
TN	22.92	17.35	18.39	40.07	37.21	37.85	36.63	45.22	39.88	40.78	39.28
UP	23.72	19.27	19.49	30.02	28.79	30.76	24.57	38.14	32.82	34.91	29.88
WB	18.32	15.36	16.46	40.85	33.47	34.73	32.26	47.21	39.01	39.16	35.74
Total	21.71	18.34	18.81	33.71	32.59	33.88	31.90	39.48	36.69	38.39	35.92

Source: RBI bulletins

2.5. Conclusions

In this Chapter, we examined trends in the social sector expenditures in Central and State budgets for the period 1990-91 to 2000-01. In this analysis we included social services as well as rural development expenditure.

Coming back to the questions posed in the introduction of this Chapter, we can come up with the following answers.

(1) Has social sector expenditure declined/increased in the 1990s?

(a) *Centre+States taken together*: As a proportion of GDP, the share of social sector expenditure has not increased during the reform period except in 1999-00. The shares in the 1990s were lower than those of the 1980s. As a proportion of total public expenditure, the share for the social sector has definitely increased since the mid-1990s. The proportion was higher in the second half of the 1990s than it was in the late 1980s. The per capita real expenditure on the social sector has also increased since the mid-1990s. From the middle of the 1990s onwards, the per capita real expenditure was higher than what it was in the 1980s.

(b) *Central Government Expenditure*: Since 1993-94, the share of GDP devoted to the social sector was higher than that in the base year 1990-91, although not very much different from the shares in the late 1980s. As a proportion of public expenditure and as real per capita expenditure, there has been a significant increase in social sector spending since the mid-1990s. These figures were also higher than those of the late 1980s.

(c) *State Government Expenditure:* Taken as a proportion of GSDP or as a proportion of aggregate expenditure, social sector spending has come down in the States. In terms of per capita real expenditure, there has been some increase, but not in the first half of the 1990s, and not much for rural development.

One could be tempted to conclude, therefore, that the Centre has done better than the States in the post-reform period. This is, however, slightly misleading, since the two are not unrelated. One can also argue that the Centre has been able to perform better by withholding money from the States. Over the years the number of centrally sponsored schemes has continued to increase, at the expense of the allocation from the overall Plan outlay to the States. (See chapter 4).

(2) What are the changes in the composition of social sector expenditures?

The most significant change, visible both at the Centre and the States, is a shift away from rural development, starting from 1996-97. Within the rural development outlay at the Centre, there is a shift away from rural employment schemes to BMS, rural housing, water, rural roads etc. In other words, there is a shift from the traditional ways of addressing rural poverty to, what we can call, human development or basic needs interventions.

(3) Are there any improvements in education and health expenditures?

With regard to health, not much has happened. Neither the Centre nor the States increased its/their health expenditures considerably. The first half of the 1990s were especially bleak. In the second half of the 1990s, the per capita real expenditure on health by the States increased (but there was no increase in terms of proportion of GDP or GSDP). Intra-sectoral allocations shows that there has been a shift towards public health and maternal & child health.

With regard to education, the share of education expenditure from all the departments declined from around 4.1 per cent in 1990-91 to 3.8 per cent in 1998-99. This is mainly due to a decline at the State level. The Centre increased its expenditure after 1995-96. This increase is almost completely due to increases in spending on elementary education, and to a large extent (but not completely!) related to the introduction and expansion of the midday meal programme.

In short, the shifts within education and health are in the right direction (towards social priority areas).

(4) What are the inter-State disparities in social sector expenditures?

In most States social sector expenditure has not increased very much in the first half of the 1990s, but in the second half there has been an increase, in terms of per capita real expenditure. The rich and middle income States have done better than the poor States, but there are huge variations within income groups. Within the group of rich States, social sector spending is highest in Goa. Within the group of middle income States, West Bengal is an outlier, in the sense that its social spending has increased much less that that of the other middle-income countries, while the absolute level is also not very high. Within the group of poor States, the performance (in terms of spending) of Madhya Pradesh, Orissa and Rajasthan has increased considerably, especially after the mid 1990s, while Bihar and Uttar Pradesh did much less well. In general, the situation of three States (Bihar, Uttar Pradesh and West Bengal) is worrying because both levels and growth of expenditure on social services are comparatively low.

(5) Has external aid in social sector increased over time?

Our data are limited in this respect. The only sector on which we have data is related to children. In this area there is a definite increase of international aid.

(6) Are the social sector expenditures in India low/high compared to other countries and international norms?

Social sector expenditure in India in the 1990s is low. It is low as compared to what India spent in the 1980s; it is low as compared to other developing countries, and certainly as compared to East Asian countries, and it is low as compared to the UNDP recommended ratios.

3. ARGUMENTS AND PRESENTATION – AN ANALYSIS OF THE BUDGET SPEECHES

Budgets are basically allocation decisions, but their presentation is usually accompanied by a budget speech. In this speech, the finance minister briefly reviews the state of the economy and explains the allocation decisions that are (and will be) taken. To a certain extent, the speeches contain a justification of the decisions and policies that are announced in the budgets and, again to a certain extent, they reveal the way of thinking underlying these decisions. In this chapter we present an analysis of the budget speeches of the Union government, between 1990 and 2001.

Of course, budget speeches are political statements, full of rhetoric and political discourse. It is therefore important not to take the statements of the finance ministers at face value, but to try to understand why the arguments are made as they are made, and regarding which issues the finance ministers prefer to maintain strategic silences.

The twelve speeches[19] between 1990 and 2001 fall into four different periods:

a. 1990 speech – last speech before the introduction of the economic reform programme. The finance minister was Madhu Dandavate, who was part of a National Front coalition government led by V.P. Singh, which had come to power in 1989.

b. 1991-1995 – five speeches by the finance minister Manmohan Singh, who introduced the economic reforms in 1991. He was part of a Congress (I) government, led by P.V. Narasimha Rao.

c. 1996-1997 – a short transition period, in which P. Chidambaram was the minister of finance in a multy- party United Front coalition government, led by Deve Gowda, and later by I.K. Gujral.

d. 1998-2001– four speeches of Yashwant Sinha, finance minister in the coalition governments led by the Bharatya Janata Party (BJP). The prime minister throughout this period was Atal Behari Vajpayee.

In the following discussion we will i) discuss the general approach towards poverty alleviation as it appears from the budget speeches, and ii) analyse which of the main social policies is/are especially highlighted and in which way(s). We will start each

19. Apart from the 12 main budgets, several interim budgets have also been produced in the 1990-2001 period. We have left these out of this analysis because these budget speeches are much shorter and contain less argumentation.

section with a short contextualisation: what was the general economic and political background against which we have to interprete the budget (speeches).[20]

3.1 1990 – Last budget speech before the introduction of the economic reforms

After 10 years of uninterrupted Congress (I) rule, the 1989 general elections brought a new government to power. The prime minister, V.P. Singh, had the reputation of a man of integrity, but his task was very difficult. He had to hold together an internally divided Janata Dal minority government, which was supported from the outside by the left parties and by the BJP. These were uneasy coalition partners, of course, but in this phase of India's political development, the main reason to agree on seat adjustments or to establish coalitions was to defeat the Congress (I) and to end the Congress (I) hegemony. The partners had divergent views on almost all other issues. The finance minister was Madhu Dandavate, a person with a Lohia-socialist background.

When the National Front government took office in 1989, it was faced with a difficult economic situation. The 1980s had witnessed several years of good growth, but at the end of the 1980s, "[p]ublic finances were a shambles, after the 'mindless spending spree in which Rajiv Gandhi and his men had indulged'". (Corbridge and Harriss, 2000:119-120, quoting Chatterjee, 1997:201). Inflation was high, foreign exchange reserves were low and the fiscal deficit had doubled in the 1980s. The 1990 budget speech starts with a description of this grim situation.

This budget speech is the last one with a clear Nehruvian imprint. There is a strong emphasis on national sovereignty. Despite the economic difficulties, the possibility of international lending was out of the question (point 12). Moreover, there is an explicit choice for planning and planned development. Point 59 of the budget speech says that "[t]his Government is irrevocably committed to planned economic development (…)". The budget speech contains a very explicit critique of the trickle down theory.

> In the traditional growth pattern, while the poor at the grass root level suffered in silence without much benefit of growth trickling down to them, the affluent at the top lived in splendid isolation and monopolised most of the gains of economic growth. The new Government rejects this trickle down theory of development. Instead, it would work for growth with equity ensured through employment oriented planning in which the decentralised institutions of the (...) state (...) will play a pivotal role (point 23).

20. For these introductory pieces, we relied on Corbridge and Harriss (2000).

The creation of employment is regarded as the main strategy to overcome poverty.

> Our first priority is employment. In the eighties, our economy grew at around 5 per cent or more., But, according to a recent report of the National Sample Survey the number of persons who are chronically unemployed increased from 8 million in 1983 to 12 million in 1987-88. (...) We believe that "every citizen has the right to productive and gainful work in order to live meaningfully and with dignity". (point 24)

The strategy towards employment creation is two-fold. One, and described in some detail, employment creation through special programmes. Two, employment creation through growth. The main emphasis here is on agriculture but the budget is almost silent about how to create this labour intensive agricultural growth. There is something on stepping up investments and a short non-committed comment on landreform (point 28), but no details are given. Instead, there is a much larger and detailed section (point 29-32) about the writing off of debts, which would "enable our farmers, artisans and weavers to increase their productivity". This was an important policy, indeed, but the main benefits went to the small and not so small farmers, rather than to the un(der)employed landless labourers.

Apart from employment programmes, food policy is also emphasised in the budget speech. Already on the first page, the issue of prices of essential commodities is mentioned, and the necessity to contain the rise in prices. In fact, food policy is one of the first policies discussed in the speech. Point 10 reads as follows:

> Adequate stocks of foodgrains are essential for maintaining price stability and our economic security. The Government has given high priority to stepping up procurement efforts and to rebuilding of stocks. (...) Special attention has been given to increasing supplies of essential commodities and streamlining the Public Distribution System. Market intervention operations are being undertaken to stabilise open market prices of some sensitive commodities.

Although it is not exactly clear what 'special attention' means, which market intervention operations have been undertaken, and what 'sensitive commodities' are, there is no doubt that the government wants to create the impression that the problem is urgent ('sensitive' even suggests that there is a national security issue at stake) and that the food economy is regarded as one of the main priority areas. The emphasis is, however, not on reaching the most vulnerable people, but on price stabilisation, inflation control and procurement price fixation, "to take full account of all costs" (point 33), meaning, of course, to guarantee better prices for the producers. The latter is not surprising, in view of the fact that one of the main spokesmen of the north Indian rice and wheat producers, Devi Lal, was the deputy Prime Minister at the time of the writing of this budget.

To conclude:

1. As far as social policies are concerned, employment creation and food policy receive most attention.
2. With regard to food, inflation control through price stabilization and procurement price fixation receive most attention. There is nothing about food policy as income transfer to the poorest sections of the population.
3. With regard to employment, the speech is almost silent about how to generate employment through labour-intensive growth. The main emphasis is on special programmes.
4. The government explicitly rejects the trickle down model, but argues that the organisation of special (employment) programmes is the best way to overcome poverty.

3.2 1991-1995 – Five budget speeches during the introduction of the economic reforms

In the 1991 elections the Congress (I) won a sufficiently large number of seats (approximately 40 per cent) to form a minority government. There was sufficient support from outside, especially because the rise of the BJP in the Parliament and the rise of communalist tensions and conflicts in society at large had made the secular opposition parties very concerned, and in the years to come, these parties preferred to form an anti-Hindu-nationalism front rather than an anti-Congress (I) front. The result was that they continued to provide support for the Congress (I) government and its budgets (Varshney, 1999). The Congress (I) government could complete its full term.

When the Congress (I) government took charge, it was faced with an acute balance of payment crisis. There was an immediate liquidity crisis: foreign exchange reserves barely sufficed to cover two weeks of imports. Furthermore, there was “high inflation (12 per cent and rising), large public and current account deficits (approximately 10 per cent and 3 per cent of GDP respectively), and a heavy and growing burden of domestic and foreign debt”. (Joshi and Little, 1997:14).). The rupee was devaluated almost immediately, and various loans (also from the International Monetary Fund) helped to resolve the immediate problems. Other measures related to industrial policy and trade were introduced shortly afterwards.[21]

The five budgets between 1991 and 1995 are a clear sequel, but their content and argumentation is not exactly the same. Poverty is very prominent in these budgets. The poor figure in three main ways. First, the poor need inflation control. This is their immediate interest.

> Inflation remains a difficult problem, and one to which we attach the highest priority, because inflation hurts the poor. (BS 1992, point 11)

Second, economic growth (and, hence, economic adjustment) is good for the poor. In the 1991 budget speech, the finance minister states that:

> If we do not introduce the needed correctives, the existing situation can only retard growth, induce recession and fuel inflation, which would hurt the economy further and impose a far greater burden on the poor. (point 8)

So, the interests of the poor are used to justify the reform programme. It is, however, acknowledged that in the short term, the poor may suffer from the economic adjustment, and that this should not happen. The third way in which the poor figure is that the budget speeches state explicitly that the government is committed to adjustment with a human face (BS 1991: points 8, 45). All budget speeches, but especially those of 1993, 1994 and 1995 elaborate extensively on the anti-poverty programmes

So, if we leave the short-term strategy to reduce inflation aside, the approach to poverty alleviation is two-fold, as described most explicitly in the 1995 budget speech: economic growth (the benefits of which would trickle down to the poor) and the provision of additional funds for various anti-poverty schemes.

In the words of the finance minister, economic growth and the reform policies are not ends in themselves.

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21. Although there is no disagreement among political observers and economists that there was a serious fiscal crisis going on in 1991, there is considerable disagreement about the question whether this crisis justified the structural adjustment policies which were introduced in the first and subsequent budgets of Manmohan Singh. Many neo-liberal economists and advocates of the reforms would answer this question positively (for instance Bhagwati and Srinivasan, 1993), but they are challenged by others such as Ghosh (1998) and Bhaduri and Nayyar (1996), who argue that the fiscal crisis did not reflect a crisis in economic development more generally. The fact that it was interpreted as such shows, according to these authors, the increasing influence of finance capital over India's economic policies (Ghosh, 1998:324).

> They are only the means to improving the lives of the ordinary citizens. I wish to assure the House that this concern has been central to our strategy from the very beginning. Experience in our own country, as also from all over the world, shows that the surest antidote to poverty is rapid and broad based growth. This is precisely what our economic reform seeks to achieve. We also recognise that the fruits of growth will take time to reach some of the poorest and weakest sections of our society. To ensure that they too derive benefit in the short run, we have given the highest priority to strengthening programmes of rural development; employment generation, primary education, primary health and other key social sector programmes. (BS 1995: point 10)

But, even though the issue of poverty figures prominently in these five budget speeches, the main thrust of these budgets is, of course, the creation of wealth. In 1991, the finance minister said already that "… we must restore to the creation of wealth its proper place in the development process" (point 22), suggesting that for some time the creation of wealth was not seen as important and that there is something like an objectively identifiable 'proper place'. Almost all the measures introduced in these budgets, whether related to investments, the banking sector, capital markets, trade policy or industrial and agricultural policy are about removing "the stumbling blocks from the path of those who are creating wealth". (BS 1991, point 23)

In view of all the explicit statements made about poverty, there is surprisingly little about the redistribution of wealth. In fact, the issue of redistribution is conspicuously absent. The first two budgets have interesting sections about austerity and trusteeship.

> For the creation of wealth, we must encourage accumulation of capital. This will inevitably mean a regime of austerity. (...) [W]e have to develop a new attitude towards wealth. In the ultimate analysis, all wealth is a social product. Those who create it and own it, have to hold it as a trust and use it in the interest of society, and particularly of those who are underprivileged and without means. (BS 1991: point 23)

> Given our limited resources, our people cannot afford to copy the soulless consumerism and the wasteful life styles of the affluent countries of the West. Conspicuous consumption has to be actively discouraged. The virtues of thrift have to be emphasised. The owners of wealth, as Gandhiji used to say, must learn to regard themselves as trustees of society. (BS 1992: point 8)

How this different attitude should be developed or enforced is, however, not clear at all. There is no policy to encourage this kind of trusteeship. On the contrary, from 1992 onwards, there was a consistent policy to ‘rationalise’, i.e. reduce the taxation rates (but with the stated objective to enhance the taxation base). In 1992, changes were introduced with regard to direct taxes: the tax percentages of both income tax and wealth tax were reduced. From 1993 onwards, the excise duties on many luxury articles such as refrigerators, colour television sets, air conditioners etc. (and on many mass consumption articles) were reduced. So much for increasing austerity and stimulating trusteeship.

From 1993 onwards, these Gandhian ideas did no longer appear in the budget speeches, but in its stead came a much larger emphasis on poverty alleviation schemes. From 1993 onwards, social sector expenditure became more important. There are extensive sections in the speeches explaining how additional budgetary support for the Central Plan makes it possible to increase the allocation for employment schemes, integrated rural development, health and education. One can hypothesise that from 1993 onwards, the Congress (I) government became aware that it had to face elections in a few years. The budget speeches became more populist.

Apart from these Plan expenditures, food policy and the Public Distribution System receive considerable funds and attention in this five year period. Three objectives of the PDS are simultaneously seen as important. The first and second are inflation control and protection of the weaker sections of the population.

> The Government will remain fully vigilant on the prices front and will use the Public Distribution System to counter inflation and in particular to protect the poorer sections of the population from high prices and shortages. The Prime Minister announced on 1st January this year the launching of the revamped Public Distribution System in about 1700 blocks of the country. We are determined to ensure that foodgrains and essential commodities reach the poor and the underprivileged in adequate quantities and at affordable prices. (BS 1992: point 12)

The revamped PDS was the first attempt of the Central government to target the subsidies to those who are most in need. Targeting of subsidies is a very common policy in structural adjustment programmes. The idea is very appealing, of course: the promise is that subsidies can be reduced at the same time as doing the poor a favour by making them the sole (or main) beneficiaries.

The third objective of the PDS is to guarantee remunerative prices to the farmers. In the early 1990s, this even meant that the PDS was used to compensate farmers for the income loss as a result of the cut in fertiliser subsidies. In 1991, the finance minister announced a 40 per cent increase of the fertiliser prices (later brought down to 30 per cent), but immediately promised that “[f]armers will be compensated for the proposed increase in the price of fertilisers through suitable increases in procurement prices”. (BS 1991: point 34)

In all these years, the food subsidy was higher than what was budgeted. The official explanation throughout this period was that the increase was “on account of the delay in increasing issue prices” (BS 1992: point 36; BS 1993: point 32; BS 1995: point 30). Of course, the finance minister could have said that the increase was “on account of the premature increase of the procurement prices”, but this was not the way in which he wanted to present the issue. The 1993 budget speech was the first speech in which the increasing food subsidy was interpreted as a burden, something that became very normal in later years. It remained also very normal to regard the ‘handsome’ rise in procurement prices (BS 1993: point 14) as a necessity, and to blame the increasing subsidy on the time lag in the revision of issue prices or on the fact that the PDS was not sufficiently targeted. This way of presenting the issue reflects, of course, the political influence of the north Indian farmers and these north Indian State governments over the food policy making process.

To conclude, in this period

1. There is a two-track strategy towards poverty alleviation: a) growth that would trickle down, and b) special anti-poverty schemes.
2. The interests of the poor are used to justify the economic adjustment policies.
3. The emphasis on poverty in the budget speeches hides to some extent that the real thrust of the adjustment policies is the facilitation of the creation of wealth.
4. There is a strategic silence in the budget speeches regarding the redistribution of wealth.
5. The increased expenditure on anti-poverty programmes is seen as part of the ‘human face’ of the adjustment programme.
6. The increased expenditure on food policy is seen as the result of a benevolent decision not to increase issue prices on par with procurement prices. The continuous rise of procurement prices is an unquestioned necessity.

3.3 1996-1997 – Two budget speeches of the United Front government

Elections were held in 1996, and the BJP became the single largest party, but without a parliamentary majority. Atal Behari Vajpayee formed a government, but this lasted only thirteen days. A thirteen-party United Front coalition government was formed, consisting of the Left, the National Front and various regional political parties. The Congress (I) supported this coalition from outside. When Congress (I) withdrew its support after eighteen months, new elections had to be called for in 1998.

The economic situation faced by the United Front government when it took over in 1996 was less problematic than the one encountered by Congress (I) five years earlier. Corbridge and Harriss (2000), who cannot be accused of being great supporters of the reform process, state nevertheless that

> In 1992-93 the rate of growth of GDP at factor costs was 5.3 per cent, in 1993-94 it was 6.0 per cent, and in 1994-95 it was 7.2 per cent. Still, more encouraging was the performance of India's manufacturing economy. Manufacturing bore the brunt of the near-recession of 1991-92, but it recovered to record annual rates of growth of 10 per cent or more in the middle part of the 1990s. (Corbridge and Harriss, 2000:156)

The first budget speech of Chidambaram also admits that there has been high growth in the past few years, but the speech also mentions the following problem areas: a fiscal deficit, sluggish agricultural growth, inadequate infrastructure, high interest rates and a trade deficit. The overall economic programme of the United Front government is similar to that of the previous Congress (I) government. The first objective of the new budget was "[t]o remain steadfast on the course of economic reforms and liberalisation aimed at accelerating economic growth" (BS 1996: point 6).

The approach to poverty is a different one, however. First, the rhetoric is different. The government is more explicit in claiming that it identifies with the poor.

> The Prime Minister has repeatedly declared that this government is a government of the poor for the poor. (BS 1996: point 26)

There is, however, nothing in the budgets which justifies this claim. Growth is still seen as the most important thing (also for the poor) and there is very little in these two budgets on redistribution of the benefits of this growth. There is some concern with the fact that only 12 million people in India are income tax payers and, worse, that only 12,000 income tax payers have a declared income of Rs. 10 lakh or more (BS 1997: point 87). The budget favours a widening of the tax net. But those who are income tax payers could be satisfied. In 1997, the personal income tax rates were reduced from 15, 30 and 40 per cent to 10, 20 and 30 per cent. Moreover, there is not a word about the possible taxation of agricultural incomes. Apparently, it goes without saying that these incomes do not need to be taxed, even though the government favours a broadening of the tax base.

Another quote about poverty is the following.

> Our fight against poverty is not a game in populism. It is a battle at the grassroots level. It is a battle in which, I believe, all of us ought to be on the side of the poor. (BS 1997: point 12)

If, however, the attack on poverty is a battle, and, of course, it is indeed, there is very little in this budget about the vested interests, and about the measures proposed to counter these. In short, the rhetoric is more explicit; the identification with the poor is highlighted, but the result is only an increase in hypocrisy.

A second difference in the approach to poverty is that the focus is less on income only, and more on a broad range of development issues. Seven objectives were identified, to be achieved before the year 2000.

> These are 100% coverage of provision of safe drinking water; 100 % coverage of primary health centres; universalisation of primary education; public housing assistance to all shelterless poor families; extension of the mid-day meal scheme; road connectivity to all villages and habitations; and streamlining the public distribution system targeted to families below the poverty line. (BS 1996: point 14).

In short, poverty is not seen primarily as income-poverty (as in the previous period), but a much wider conception of poverty is adopted, which includes various basic needs.

With regard to the 'traditional' anti-poverty schemes, the budget speeches announced a review and a 'rationalisation', i.e. to bring down their number and to make them more focused and effective (BS 1997: point 13). With regard to food, the United Front government implemented a major change, indeed, namely the Targeted Public Distribution System (TPDS). The TPDS means, in principle, that subsidies are given mainly to households identified as Below Poverty Line (BPL). The conspicuous silence here is, of course, the issue of procurement prices, which is not mentioned at all in these two budgets.

To conclude, this United Front government

1. Adopted a broader definition of poverty. The focus shifted from income and employment to basic needs.

2. Claimed that it identified with the poor. There is, however, little evidence to substantiate this claim.

3. Introduced targeting in the public food distribution. This could be interpreted as an attempt to make the poor benefit more from the PDS. It can also be interpreted as a way to reduce the subsidy burden. In any case, the focus on targeting of the PDS left the issue of procurement price fixation conveniently out of the discussion. (See also Mooij, 1999)

3.4 1998-2001 – Budget speeches of the BJP-led coalition governments

Elections were held in February-March 1998, and this time the BJP did slightly better, but again did not command a majority in the Parliament. This time, however, the BJP had made important strategic alliances with regional parties, and with the help of these partners could form a majority coalition government, under the leadership of Vajpayee. When one of these regional parties withdrew its support, the government fell and new elections were held in 1999. Again, a BJP-led coalition government – the National Democratic Alliance - came to power, which was headed by Vajpayee.

When the government came to power in 1998, the macro-economic situation was more or less the same as two years before. Also the BJP-led coalition governments continued the economic reform process (even though the East Asian crisis had made it clear now that also apparently successful market economies can experience severe economic crises).

Although there was no break in the economic policies, there was again a shift in the mode of speech. While the issue of poverty figured very prominently in the budget speeches up to 1997, it received less attention in the budget speeches of Yashwant Sinha. The first budget speech still started with an explicit (but difficult to take seriously) statement.

> In preparing this budget I have been guided by the famous talisman of Gandhiji. I have recalled to myself the face of the poorest and the weakest man I have seen and made sure that this budget is of use to him. (BS 1998: point 5)

But apart from this statement, the whole budget speech used the terms 'poor' or 'poverty' only twice. By contrast, the maiden speech of Manmohan Singh in 1991 contained 22 references to poverty and the poor.[22] The earlier explicitly made connection between poverty and reforms (either in the positive sense – that the poor have an interest in the economic reforms – or in the negative sense – that the poor may be badly affected and therefore need to be compensated) is almost absent from the budget speeches after 1998.[23]

The relative disappearance of poverty does not mean that all the relevant policies have ceased to exist. From 1998 onwards, they are discussed as human development (sometimes called human resource development) policies. They include health, education, drinking water, housing, roads, food, empowerment of women, etc. All these policies receive considerable attention in these four budget speeches. Often it is mentioned that especially the Scheduled Castes, Scheduled Tribes and Other Backward Classes should benefit from these programmes. The 1998 budget put a lot of emphasis on decentralised management (i.e. management by the elected district or village councils). A new term brought into the budget speeches in 1999 is empowerment. To quote the finance minister:

> The essence of human development should be to empower vulnerable people in society to take advantage of the process of development. Empowerment, in my view, entails access to five basic requirements, namely, Food, Health Care, Education, Employment and Shelter. It is our resolve to make them available to the entire population of this country within a decade. (BS 1999: point 17)

This empowerment has, hence, nothing to do with changing power relations or a redistribution of productive assets. It is about basic social services – important enough – and nothing else.

As a result, the traditional anti-poverty programmes receive much less attention in the 1998-2001 budget. A revealing statement is made in the 1998 budget, where the finance minister says that

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22. A word counting exercise yields the following results. The average between 1991 and 1995 was 13.4 references (to poverty or the poor) per speech. The average between 1998 and 2001 was 9.

23. An exception is the following quote. "Growth is not just an end in itself. It is the critical vehicle for increasing employment and raising the standard of living of our people, especially of the poorest. (...)" (BS 2000: point 173). But this is at the very end of the Budget speech, and comes more or less as an afterthought.

> The problem of rural unemployment and underemployment is a massive one. This can only be solved through self-employment *[and, hence, not by wage employment schemes]*. There can be no reason why every craftsman, artisan and weaver cannot become an entrepreneur and run his own little enterprise. (BS 1998: point 18; italics are our addition)

The major bottleneck, according to the finance minister, is just credit, and he tries to solve this through the extension of micro-credit facilities. There is nothing about the scope for marketing of the products, the lack of purchasing power and other factors which are well known to reduce the effectiveness of programmes which seek to alleviate poverty through self employment (e.g. Osmani, 1991). The quote reflects whom the finance minister is talking to in this budget: the relatively successful entrepreneurial people who have enough assets themselves to sustain their success. The quote also reveals the implicit interpretation of poverty by this government. It is a residual interpretation – in contrast to a relational one. Poverty is seen as something that can disappear with a capital injection. A relational interpretation, on the other hand, would hold that poverty is the result of social and economic relations: the poor are poor as a result of their position within the social and economic structure.[24]

The BJP-led governments did not announce the complete abolition of the wage-employment anti-poverty schemes, but it did announce rationalisation and modifications.

> Over the years, programmes for alleviation of poverty and employment generation have proliferated. Each scheme is well intentioned but their multiplicity has led to needless duplication, high overhead costs, confusion at field levels and insufficient benefit to the people. It is proposed to unify the various programmes under two broad categories of Self Employment Schemes and Wage Employment Schemes. Funding and organisational patterns will be rationalised to achieve maximum beneficial impact of these programmes. (BS 1998: point 15)

However, while this rationalisation of traditional schemes was proposed, a lot of new schemes were announced simultaneously. For instance, the 2000 budget announed a new scheme for universalisation of education (point 19), a new scheme for critical needs of rural people (point 20), a credit-cum subsidy scheme meant for house-building (point 21), one more rural Housing Finance Scheme, (point 21), a new scheme for group insurance of the poor (point 22) and a new credit guarantee scheme (point

24. See Bernstein, 1992:24.

27). The rationalisation of the traditional anti-poverty programmes on the one hand and the proliferation of new schemes related to various human (resource) development on the other, nicely illustrates the above described shift in ideas regarding poverty and human development.

A subject which is discussed in much more detail in the budgets from 1998 onwards is disinvestment and privatisation of public sector enterprises. In the course of these four years, the budget speeches become more and more concrete and gradual shifts occur with regard to what is said about the protection of labour. The 2001 budget is by far the most far reaching in its proposals. This budget contains several proposals to reduce 'labour market rigidities'.

> (...) [I]t is ... necessary to address the contentious issue of rigidities in our labour legislations. Some existing provisions in the Industrial Disputes Act have made it almost impossible for industrial firms to exercise any labour flexibility. The Government is now convinced that some change is necessary in this legislation. (BS 2001: point 52)

All the twelve budgets discussed in this review were almost silent about employment creation in the regular economy. While there were separate sections on agriculture and industry, there was usually very little on employment and labour market policies (except in the sense of specific anti-poverty employment programmes). It is ironical that the first time that the labour market is specifically discussed in a budget, it is to make the point that lay-offs, retrenchments and closures should be made more easy.

Finally a word about food policy. As compared to the previous period, and to the size of the expenditure, food policy received relatively little attention in the budget speeches, although there are some (unsuccessful) proposals to reduce the subsidy.

To conclude

1. The link between poverty and reforms is no longer emphasised. The argument that the poor need the reforms is no longer prominent, while the argument that the poor need to be compensated is altogether absent.

2. The poor are seen as potential enterpreneurs who are in need of capital injections (micro-credit). The understanding of poverty is residual, rather than relational.

3. The traditional anti-poverty programmes are seen as less effective. New schemes related to various human development dimensions are introduced.

4. In line with this, the conceptualisation of poverty has continued to shift. Human (resource) development has become more important.
5. Increasingly, the food subsidy bill is considered as a problem, but it has not yet been possible to work out adequate solutions.

3.5 Conclusion – Trends in Speech and Silences

The analysis of the budget speeches of the period 1990-2001 sheds some light on the argumentation and underlying assumptions of the various budget decisions. As we mentioned earlier, budget speeches are political documents and cannot be taken at face value. They are written for particular audiences. They package messages in particular ways. They elaborate on some issues but are silent on others. In short, they reveal as well as hide.

The analysis in the previous sections focused particularly on what the budget speeches had to say about poverty and social policies. The analysis suggests that there have been definite shifts in the way the various governments have addressed the issue of poverty generally and social policies specifically. First, in the first years after the introduction of the structural adjustment policies, the interests of the poor were emphasised much more than in the later years. The official argument was that the poor needed economic adjustment. In the short run they would, perhaps, suffer, and therefore needed to be compensated. In the official language, the government pursued structural adjustment with a human face. In the last few years, compensation was no longer an issue. Or to put it differently, throughout the 1990s, poverty was conceptualised as residual. It was assumed that the poor are 'left out' of the development process and should be brought in. But there have been shifts in the extent to which poverty is conceived as residual. In the first years of the 1990s it was acknowledged that the poor could suffer from the economic processes and policies. Poverty could be aggrevated or additional poverty could be created, even though, in the long term, it was assumed, the benefits would trickle down. After 1998, this possible intensification or creation of poverty disappeared from the speeches.

Second, there has been a gradually changing conceptualisation of poverty: from poverty in terms of income to poverty in terms of human development dimensions. There has been a shift in emphasis from the traditional anti-poverty programmes (wage employment and self-employment programmes) to human development-related policies and schemes.

Third, there has been a shift in thinking about food policy. In the first years of the 1990s, this was seen as one of the major instruments to combat inflation and as a general safety-net measure. In the course of the 1990s the emphasis shifted to reaching the poorest of the poor through targeted schemes. In the course of the 1990s, the food subsidy became to be seen more and more as a burden (even though there is no systematic increase after 1993-94, when taken as a proportion of GDP).

Throughout the period under investigation here, there have been some consistent silences in the budget speeches. One has been the issue of employment in the regular economy. Although all finance ministers have emphasised the importance of job creation, all of them have been vague about the way in which they would pursue this (except through specific employment anti-poverty schemes). The assumption throughout has been that growth is always good for employment and that pursuing economic growth is, therefore, always good. Employment creation or the labour market have never been considered as important enough to deserve a separate heading or separate treatment in the twelve budget speeches, except in the last one where the point is made that labour markets need to become more flexible. It would be no exaggeration to state that, as far as one can judge from these budget speeches, India in the 1990s had no employment policy.[25]

A second silence is the issue of redistribution. Poverty receives considerable attention, but not social inequality. The creation of wealth is important throughout the 1990s, but the redistribution of it is not discussed. The first two budgets of Manmohan Singh argue that wealth is a social product and should be seen accordingly. But there are no concrete attempts to stimulate or enforce this idea. The income tax rates have been reduced considerably by various governments. Excise duties on luxury products have come down. Duties on imported goods (often luxury items, purchased by the wealthier middle classes) have come down. Overall, the expenditure on social services has not increased very much (as percentage of GDP). In short, redistribution has never been a serious issue, not in the speeches and not in terms of real allocations.

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25. It may be that a different picture would emerge when one would also look at the 5-year Plans. A specific employment policy would involve, for instance, a principled choice to choose labour-intensive technologies in the planning of infrastructural works; a consistent policy to support labour intensive industries (through taxes, strategic investments and price policy), etc.

A third silence relates to the special position of agriculturists in the economy. Even though the various finance ministers have sought to broaden the direct tax base, a proposal to introduce taxes on agricultural incomes has never been made.[26] Furthermore, in all the discussions about the food subsidy, the current practice regarding procurement and procurement price fixation has never been questioned. Agriculture is continuously supported with the help of cheap credit schemes, subsidies, occasional loan wavers etc. Supporting the farmers in various ways (even when this goes against the desire to increase the tax base or the desire to bring down the food or fertilizer subsidy) is something all governments in the 1990s have done without questioning this special position of farmers even once.

4. THE BUDGET MAKING PROCESS

This chapter will discuss how budget allocation decisions are made. What are the main institutions involved; what are the preferences of the policy makers; which interests are particularly represented; how participatory and democratic is the budget making process? The focus is, again, on the Central government. This chapter is based on secondary material and on interviews with policy makers in various capacities, representatives of stakeholder groups and outside observers of the policy making process. See Appendix 2 for a list of people interviewed.

The first section discusses the particular form of the Central government expenditure – the centrally sponsored schemes, the various interests in the continuation of these schemes and the effects on the level of assistance to the State Plans. The second section describes the role of the various institutions in the budget making process, and the extent to which people outside the government are consulted and/or participate in the process. The third section is about the changing ideas among the main policy makers concerning the best ways to address poverty. The fourth section discusses the process between allocation decisions (i.e. what is budgeted) and actual expenditure figures (i.e. what is spent). Underutilisation of funds is one of the issues addressed in this section. The chapter ends with a short conclusion.

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26. Of course, direct taxation of agricultural income would be difficult to administer. But this does not fully explain the fact that it has never been put on the agenda in the 1990s. With regard to urban-based income taxation, various criteria have been formulated (ownership of four-wheel vehicles, ownership of telephones, foreign travel in previous year, occupation of immovable property with particular characteristics). It would not be difficult to design similar criteria with regard to the agricultural sector.

4.1 Form of Central Government Expenditure – the Centrally Sponsored Schemes

Apart from the food subsidy, which is a major non-Plan item, most other social sector expenditure of the central government comes under the Plan and takes the form of schemes. There are two types of schemes: a) central sector schemes, and b) centrally sponsored schemes (CSSs). In the case of the central sector schemes, the central ministry (of Labour, for instance) is fully responsible for the scheme. It formulates the guidelines and the central government agency implements the schemes in the States. In the case of centrally sponsored schemes, the central ministry develops the guidelines, but the implementing agency is the State government. Sometimes CSSs consist of a full grant from the Centre, but in other cases States have to provide matching funds.

Many of the centrally sponsored schemes deal with rural employment generation, water and sanitation, housing, education, health etc. According to the Constitution, these policy areas are the responsibility of the State, or they fall under the Concurrent List – meaning that both State and Centre are responsible. In this light, there are voices stating that the money for the CSSs should be handed over to the States and that the role of the Centre should be brought down. In the course of the years, however, the centrally sponsored schemes have only become more important and a larger and larger share of total Plan expenditure is spent on these schemes. In other words, the Centre is centralizing expenditure on the social sector, and perhaps even “encroaching” on the responsibilities of the States, as one of our respondents formulated it.

What is the historical and political background of this centralisation, and what are the interests at stake at the moment? CSSs have been there already for a long time, but it is especially after 1980 that these schemes have mushroomed and that they have started to occupy a larger part of the overall Plan size. According to Sarma

> The number of CSSs increased steeply during the last 10-15 years and has now reached a staggering level of 210. The share of the CSSs in the Plan budget of the Central Ministries has since increased from a mere 30% in the early eighties to around 70 % now. (Sarma, 2001:8)

The number of schemes has even increased further since Sarma wrote his paper. At several occasions throughout the year, new schemes are introduced, especially on 15 August, Independence Day, when the Prime Minister speaks from the Red Fort in

Delhi and announces new schemes – an event dreaded by some of the people within the finance ministry, according to one of our respondents.

The increasing expenditure on CSSs came with a cost for the States. The share for the States of the total Plan outlay has come down from 53 per cent in 1979-80 to 38 per cent in the eighth Plan (1992-97). The share for the Centre has gone up accordingly. The trend observed in chapter 2 that the Centre has increased its expenditure on the social sector in the 1990s but that the States have done much worse, is hence no surprise. It can be partly explained by this "encroachment".

The early 1980s was the time that Indira Gandhi had come back to power, after a short period of a non-Congress government at the Centre which followed the Emergency (1975-77). In many States opposition parties (i.e. non-Congress political parties) ruled and that may have been one of the reasons why she decided to spend a larger proportion of the Plan outlay on these schemes. Her emphasis on poverty was older, however. In 1970, she had started using the election slogan *Garibi Hatao* – Eradicate Poverty- in an attempt to appeal to the rural masses. The big increase in spending on the various schemes, however, started with the Emergency and afterwards. These schemes provided for a possibility to increase the visibility of the central government in the States and to reach out directly to the electorate, without giving the State governments too much say with regard to implementation matters.

It would be wrong however, to think that populist programmes are restricted to the Centre only. Some of the States also started to implement their own populist welfare schemes. States and the Centre even started competing with each other, according to one observer.

> A careful examination of the central and state budgets over the years reveals that both the central and the state governments have resorted to competitive populism. It has gone to the extent of the central government sometimes attempting to plagiarise the populist schemes introduced by state governments by copying and converting these into centrally sponsored schemes. (Thimmaiah, 1996:46)

There are obvious political reasons for copying schemes or for making State schemes universal. As one of our respondents mentioned, "the midday meal scheme existed initially only in one or two States, ruled by opposition parties. The Congress governments in the 1990s converted it into a CSS scheme, so that it would exist all over India, also in the Congress-ruled States".

This use of the centrally sponsored schemes continued after Indira Gandhi was assassinated. One can even hypothesise that the weaker the central government, the more the need and the desire to implement schemes which enhance the visibility of the central government and which suggest that the central government can still do things. According to many of our respondents, Indira Gandhi was the last prime minister who was very well known to all Indian people. All prime ministers after her have tried (but failed) to establish a similar kind of relationship, and they all used the CSSs for this purpose. One of the last examples is the so-called Pradhan Mantri Gramodaya Yojana (Prime Minister's Village Development Scheme).[27]

There is widespread criticism against the system of Centrally Sponsored Schemes. Within the Planning Commission (members as well as bureau) there is a fair amount of consensus that a) there are too many schemes, and they should be clubbed together, and b) it would be better to transfer the money to the States directly, and leave it more to them to decide how they would like to use the money.[28] (For a critique from an insider, see for instance, Saxena, 2001. See also the Approach Paper to the Tenth Five Year Plan, GoI, 2001.) The more vocal chief ministers also claim at public occasions (e.g. during the meetings of the National Development Council) that the funds should be transferred directly to the States. But, as several of our respondents stated, there is also hypocrisy on the parts of some of these chief ministers. In public they say one thing, but they are not willing to put the same in writing. Some of the politically stronger States benefit from the existing system. If the funds would be given directly to the States, it would happen according to one or the other formula, and it would become impossible to pressurise for more.

The resistance against a transfer of CSS funds to the States does not come only from the politicians, but also, and perhaps more importantly, from the central government bureaucracies. On the one hand there is an attitude within many of the "spending ministries" that they know best what should be done. "If the funds would be transferred to the States, there is no control and States will do with the money whatever they want". One insider described the attitude in these departments as fairly paternalistic. Many of the civil servants working in these ministries "distrust the States", and feel "morally superior". On the other hand, there is a clear issue of survival. After all, a transfer of the money could perhaps result in downsizing of various central government ministries, such as rural development, education, health

27. The PMGY is only partly a CSS, by the way. 50 Percent of the funds (for basic needs) is allocated as central assistance; the other 50 percent (for rural roads) is CSS money.

28. The issue of how this transfer should take place is left out from our discussion here. There are several kinds of proposals floating, with very different financial implications for the States.

etc. The issue is not that the civil servants would lose their jobs, but "their position of tremendous power that they enjoy now" would certainly be threatened. Many officials of the Indian Administrative Service who are now (joint, assistant or additional) secretary of the Government of India would have to go back to their State.

Downsizing would also have consequences for the Ministers. As one of our respondents said: "It would mean the minister of Rural Development has nothing to do. And in a coalition government each political party has to have an important ministry with money". The members of Parliament, according to another respondent, are also against decentralisation of the funds. "It is easier for them to pressurise a central minister and his bureaucracy than the State minister and his bureaucracy".

In short, there are various strong vested interests in maintaining (and perhaps even enlarging) the central government social sector funds in the form of centrally sponsored schemes. At the moment, it seems unlikely that the system is going to change in the near future. During the last meeting of the National Development Council[29] (September 2001), the transfer of a number of centrally sponsored schemes was agreed, but these were all small and relatively unimportant schemes. We expect the larger and more important schemes to remain centrally administered.

4.2 Who is Making the Budgets?

Plan expenditure

Apart from the food subsidy, most of the central government expenditure on the social sector is Plan expenditure.. This means that, in principle, once in five years when the Plan is designed, schemes are formulated and funds are allocated. The reality is, however, different. Although the full size of the Plan is decided at the start, the annual allocation has to be renegotiated every year. These 5-yearly and annual negotiations are often difficult. The Planning Commission argues for a higher outlay; the Finance Minister (who is a member of the full Planning Commission) argues for less. According to one of our respondents, who had relevant experience in the Finance Ministry itself, Plan expenditure is seen as residual by many of the economists in the Finance Ministry. Only after all non-Plan budgets are made, the annual allocation for the Plan can be calculated. Often the Prime Minister (who is the chairman of the full Planning Commission) has to intervene to settle the matter. After 1993-94, the size of the Plan has come down as proportion of total government expenditure, and the size of non-Plan expenditure has gone up.

29. The National Development Council is an advisory body attached to the Planning Commission. It is composed of the Prime Minister (who is the chair), all Chief Ministers of the States and all members of the Planning Commission. In principle, the interests of the States are, hence, fairly well represented.

In principle, the decision of how to use the Plan money is left to the Planning Commission, and there is not much interference here from the Finance Ministry. In practice, however, there are several ways in which the Finance Ministry can exercise some influence. This is further discussed below. The final Plan has to be approved by the National Development Council.

The Planning Commission consists of the Prime Minister, who is the chairperson, the deputy chairman, the Finance Minister and several other Cabinet Ministers, several other members and a (member) secretary. The members are appointed by the Prime Minister. At the moment, they are all relatively old men. There is a widespread consensus that in recent days appointments are more politicised than in the past and that 'eminence' plays a less important role. Apart from this Planning Commission proper, there is a large staff. There are several divisions, headed by (principal) advisers. These advisers can be experts who applied directly for this job, or they can be generalists from the Indian Administrative Service. Most of our respondents considered the first option superior, but agreed that, unfortunately, the trend is towards an increasing proportion of IAS. These civil servants can have relevant expertise, of course, but they can also be people who have to be posted somewhere, perhaps even because they did not fulfill the expectations in their previous posting. Moreover, several people told us that within the IAS, a posting within the Planning Commission is not regarded as very prestigious, and some may even regard it as a punishment transfer. All in all, a general conclusion one can draw is that the eminence of the Planning Commission has suffered in recent times, and its prestige eroded.

The budget is made annually. Budgets are presented at the end of February, but the preparations start a few months earlier. In the course of this preparation, all ministries and departments are consulted, and discussions are also held with several interest groups from outside the government, including small-scale industry, large industrialists, farmers and trade unions. Every year a number of separate half-day meetings are set up to discuss relevant issues with these interest groups. These consultations are a bit like rituals. As one respondent said: "The Finance Ministry has to organise them. They are useful, but the fact that it is done every year also means that one has to continue. Not doing it after so many years would look strange". The representatives of the Trade Unions also regard these meetings are annual rituals. These organisations attend the meetings, of course, but do not expect much of them. "The Finance Minister will listen to what we have to say, but he will not act upon our demands".

As compared to the budget making process, the Plan preparation is highly consultative. At the time of writing this paper, the preparations were going on for the 10th Plan. Each division has established a number of working groups, sometimes only one, but in the Health and Family Welfare division, for instance, there are 13 working groups. The working groups have usually between 20-30 members. The various ministries and departments are normally heavily represented. Apart from these representatives, all working groups include a number of academics or other experts, and most groups also include representatives from NGOs, other voluntary organisations or Trade Unions. For instance, the working group on rural poverty alleviation includes someone from the Self-Employed Women Association (SEWA), BASIC and Action Aid. The working group on elementary education and adult education includes representatives of several NGOs, including the MV Foundation. All in all, although the representation from the government's side by far outnumbers the representation of others, most working groups have a rather varied composition. The membership of the working groups is by invitation. It is often the divisional advisor of the Planning Commission who decides who will be invited to participate.

The extent to which the members of the working groups take part in writing the final report is usually limited. Often the chairman or one of the officials writes the final report. The extent to which the recommendations of the working groups are included in the final Plan document is not clear, and will probably vary from case to case. Most people interviewed said that the influence of the working groups is limited. Yet, it is also likely that in an indirect way these working groups are one of the mechanisms through which new ideas trickle down to the Planning Commission and the Plan documents.

There are additional mechanisms through which ideas trickle down to the Planning Commission and the Plan. Some of the NGOs or trade unions are very active in advocacy and, for instance, organise seminars together with the Planning Commission and relevant departments, or they lobby in favour of particular schemes. Several (ex) policy makers among our respondents told us that the influence of non governmental organisations and other types of associations on policy making has increased over time. Although some government officials are still very negative about NGOs and other local organisations, it is also acknowledged that these associations have sometimes been successful in developing alternative strategies for development, which have to be taken seriously by the government.

In several ways politicians participate in the budget making process. The finance minister and the prime minister play key roles in the decision regarding the Plan size. In addition to these ministers, the full Planning Commission consists of several other Cabinet ministers. Members of Parliament come in at least once a year when the budget has to be approved by the Lok Sabha. Unfortunately, however, according to several respondents, the available expertise among MPs on budgetary matters is not sufficient, and the level of debate (and subsequent monitoring etc.) is disappointing.

Party political considerations can play a major role in budget decisions. The jump in social sector spending (especially Rural Development) in 1993 is a clear case in point. Many critics inside and outside the government felt at that time that rural development had suffered too much as a result of the stabilisation policies. There was a lobby from the Rural Development ministry itself; there were people within the Planning Commission and economists outside the government who all said that rural development expenditure should be stepped up. The result was a big increase in Plan allocation, indeed, but without an overall increase for the Plan outlay. It is likely that the then prime Minister, P.V. Narasimha Rao, who was holding the Rural Development portfolio at that time, was convinced himself of the necessity to spend more money on rural development and anti poverty programmes. Although Parliament elections were still a long way ahead, State Assembly elections in various States had made it clear that the Congress (I) party was not doing well. According to several respondents this made the Prime Minister and others worried about the political prospects and the future of the reform process. As one respondent put it: “Narasimha Rao thought that the whole reform process could be made acceptable if he could pump in more money for the poor**”.**

As it happened, however, even though social sector expenditure was increased, Congress (I) did not manage to win the parliamentary elections in 1996. The United Front government, which introduced the Basic Minimum Services after it came to power in 1996 also did not survive the next elections. The only major political party in the 1990s which did not lose an election while it was ruling was the BJP in the 1999 election.

This raises the important issue of whether voters make their choices partly on the basis of budget/social sector allocations (or not), and what the ultimate influence of their choices on policy directions is. We do not have enough information to interprete this political incumbency in central politics and its relation to social sector expenditure. Perhaps, social sector expenditure at the central level does not play a large role in voters' decisions. Neither a generally low level nor an increase to a slightly higher but still relatively low level convinces voters to vote for the ruling party (parties). Voters make their electoral decisions on the basis of other things than social sector policies.[30] But it may also be that social sector policies do play a significant role and that dissatisfaction with the party (parties) in power in this respect makes voters vote for alternatives. This is one of the assumptions of the 'public action' model: that political leaders in electoral democracies cannot afford to neglect the interests of voters altogether, and that there is, therefore, "scope for influencing the agenda of the government through systematic opposition" (Dreze and Sen, 1995:vii). Perhaps, one can conclude that in India voters do exercise their rights to send unsatisfactory politicians home quite effectively. In this respect Dreze and Sen are right. But whether they exercise an effective influence on the government's agenda is a different matter altogether. Because the next government pursues more or less the same set of policies and has no radically different set of priorities, one can state with Currie (2000) that the electorate's 'right to get rid' is not automatically a 'right to get right'

The Food Subsidy

The food subsidy exists because the expenses incurred by the government on foodgrain procurement, storage etc. are larger than the revenues through the sale of these foodgrains.[31] The system is the following. The government of India procures foodgrains (i.e. rice/paddy and wheat) at fixed prices. These procurement prices are set by the Government. The Commission on Agricultural Costs and Prices recommends a certain price (called minimum support price or MSP) on the basis of costs of production etc. The Cabinet then decides at what price level it will procure. This price is always higher than the recommended MSP.[32] The foodgrains are then stored and distributed in the various States. Consumers possessing ration cards can buy the foodgrains in special shops.

The rise of the food subsidy is sometimes interpreted as the logical consequence of the desire to satisfy different constituencies simultaneously: producers (who demand a high procurement price) and consumers (who are interested in low consumer prices).

30. See, for instance Varshney (1999) for this argument regarding the reform process. He argued that the policy reformers in the 1990s could implement the economic reform policies, basically because mass political attention focused on identity issues and communalism rather than on economic policies.

31. It is important to mention again that it is actually questionably to what extent the food subsidy is part of 'social sector expenditure'. The food subsidy benefits some consumers, but it also includes a producer subsidy and the carrying costs of the (now gigantic) stock.

32. See also Rao (2001).

But this is not what happened in the 1990s. In fact, the large subsidy in the 1990s (and especially after 1997) was the consequence of raising the consumer prices more or less on par with the procurement prices (in an ill-conceived effort to bring down the food subsidy).[33] The result of this policy was a lower offtake from the Fair Price Shops because the prices were relatively high as compared to the poor quality of the foodgrains. This led to a huge foodstock of more than 60 million tonnes in September 2001. Since the Food Corporation of India, the main procuring agent, has to buy whatever is offered, the foodstock continues to rise, and so does the subsidy.

This level of subsidy is considered a problem, but not to the extent that the level of the procurement prices or the obligation to purchase whatever is offered at the procurement price level is reconsidered. Procurement prices have experienced steep increases in the 1990s, and they are consistently higher than the prices recommended by the Commission for Agricultural Costs and Prices (CACP), even though there is no need to continue procurement as far as the stock level is concerned. So, the only attempts to reduce the subsidy have been half-hearted (and counter-productive) attempts to restructure the distribution side of the PDS. The obvious question is why nothing is done about this procurement (price) policy. One has to look at the process of procurement price setting and the politics of procurement policy generally to understand this.

Minimum support prices are advised by the CACP. Nowadays, the CACP is composed of seven members: a chairman, a member-secretary, three non-official members and two official members. The two official members are usually retired civil servants, academics or other experts. The non-official members are (supposed to be) representatives of the farmers community. It has not always been like that. When the APC, the predecessor of the CACP, was established in 1965, there were no farmer-members. Sometimes the non-official members are real hardliners fighting for high prices, but they can also be moderate gentleman-farmers who, for instance, have worked most of their life in the bureaucracy.

The real upward push on the prices seems to happen, however, after the CACP makes its recommendation.[34] The Ministry of Agriculture prepares a Cabinet note,

33. In 1997, the Government of India introduced targeting. It made the distinction between households above the poverty line (APL households), which had to pay more or less the economic cost price for the foodgrains, and households below the poverty line (BPL), who were entitled to the foodgrains at a lower rate.

34. Actually, between 1999 and 2001, the CACP has not recommended a MSP for wheat, following a disagreement between the CACP and the GoI regarding the MSP and the extra bonus on top of the MSP.

and the Cabinet decides about the price level. According to several people we interviewed, there is direct pressure on the Prime Minister from the Chief Ministers of the main procuring States to set the procurement price at a higher level. These States are Punjab, Haryana and Andhra Pradesh.[35] There are several reasons why high prices are important for these States and their Chief Ministers. First, for these Chief Ministers it is a very cheap way of pleasing a large part of their constituency. Especially in Punjab, whose economy depends to a large extent on agriculture and where foodgrain production is mainly for the FCI, the level of the procurement price is of immediate interest to the farmers. In all these States the political leaders have their major support base among the wealthy foodgrain producing farmers. Second, these States levy a statutory tax on FCI purchases, which means that, on top of the procurement price for the farmers, the FCI has to pay about 10 per cent statutory levy to the State Treasury.

There are also several reasons why the Prime Minister and the Union Cabinet cannot afford not to give in to this pressure to some extent. First, the central government cannot afford to antagonise the chief ministers of Punjab, Haryana and Andhra Pradesh. All three represent political parties which contribute to the National Democratic Alliance and which are crucial for its survival. This is the current situation, but in a different way it was also true during the first half of the 1990s, when the ruling Congress (I) government wanted the Congress in Punjab to win the Assembly elections in 1992. Second, there are important farmers lobbies with members in almost all political parties. No political party wants to antagonize them. Third, although there is no strong separatist movement in Punjab at the moment, there is still a fear for potential political instability. As one of our respondents said: “The food subsidy is the price India has to pay for keeping Punjab within the Indian Union”.

4.3 Changing Ideas

Within and outside the government, ideas about how to address poverty have changed in the course of time. To a certain extent, this is reflected in the abolition of some schemes and the emergence of others. There is a continuous process of renaming and recycling. Schemes are merged with one another – and sometimes particular elements are taken out and converted into new schemes. New guidelines can be added to these merged schemes.[36] Occasionally schemes with really new elements

35. These States contribute most foodgrains to the Central pool. In 1994/95, 50 per cent of the FCI wheat purchase and almost 40 per cent of the paddy/rice purchase was done in Punjab; 25 per cent of the FCI wheat and 12 per cent of the paddy/rice came from Haryana and 30 per cent of the paddy/rice came from Andhra Pradesh. (World Bank, 1999: Annex Table 1.11)

come up. These may be the brainchild of particular activist civil servants who thought a new scheme was important and who took the trouble to design it, or they may be modeled after a successful scheme designed in a particular State.[37] Obviously, there is a political interest in recycling and in new schemes: new names mean new announcements, new promises, new claims. Apart from that, there is also a bureaucratic interest. Generally, the attitude within the central ministries is 'the more schemes and the more funds, the better'. So, recycling and adding new schemes serves their interests any how, independent of the content of the new schemes. But the way in which new schemes are formulated illustrates a shift in thinking. On the whole, there is less faith now in wage-employment or income-generating programmes than in the past, and more faith in human (resource) development interventions.

In our interviews we observed a widespread disillusionment with the traditional schemes. Leakages are supposed to be very high. A remark by Rajiv Gandhi that they were as high as 80 per cent has apparently stuck in the memories of several policy makers, since this remark was quoted several times during the interviews. There is a widespread belief that money goes down the drain and that, "at best some current poverty can be alleviated, but the employment that is created is not sustainable". So, there is a general idea that money should be spent in a different way, and that the emphasis has to shift more to infrastructure and human capabilities, rather than employment.

The increasing loudness of the critique on the traditional anti-poverty programmes fits into a more general trend to be more open about poor governance generally and the failures of the delivery system in particular. The mid-term appraisal of the 9th Plan is very critical about the implementation of many schemes. Several people within the Planning Commission seem to think that the quality of governance has deteriorated seriously and that there is no point hiding this any longer. In fact, the sixth chapter (on poverty alleviation programmes) of the Mid-Term Appraisal of the Ninth Plan, for instance, reads as a long list of various kinds of failures of the

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36. Some major recent examples of this recycling are the Swarna Jayanti Gram Swarozgar Yojana (SGSY), a credit-cum-subsidy programme including the previsous IRDP, TRYSEM, DWACRA and other similar schemes; the Jawahar Gram Samridhi Yojana (JGSY), a 'strengthened' and 'restructured' version of the previous JRY; the Pradhan Mantri Gramodaya Yojana (PMGY), including the previous Basic Minimum Services (BMS) and a newly added big rural road scheme.

37. An example of the first is the Revamped Public Distribution System, developed by an activist IAS officer within the Prime Minister's Office in the early 1990s. Examples of the second are the Employment Assurance Scheme (modeled after Maharashtra's Employment Guarantee Scheme) or the National Social Assurance Programme (modeled after a similar scheme in Tamil Nadu).

government to implement the schemes properly (GoI, 2000). The Approach Paper to the Tenth Five Year Plan states that there are serious deficiencies in the capability to design viable schemes and in the delivery system on the ground, and these can be "regarded broadly as due to poor governance." (GoI, 2001:48).

What has contributed to this concern about governance is the fact that the emphasis of the planning process itself has shifted somewhat over time, from investments in basic infrastructure to social sector development. The issue of governance is much more prominent now, according to one of our respondents, because social sector investments depend to a large extent on human beings. And secondly, there is a more general evolution in the awareness and thinking about the state and the importance of governance. The issue is put on the agenda by international donors, who sometimes use 'the quality of governance' as a criterion to give aid or loans, or not. The faith in the capacities of the state is much less self-evident than in the past. Performance and capacity are no longer assumed; they have to be proved.

There are many factors which have influenced thinking about poverty and social development. One, obviously, are the poor and disappointing achievements of the employment and income-related anti-poverty schemes. But apart from that, generally, in academic thinking about poverty, there is a shift from conceptualising poverty only in terms of income, to an approach focusing on human capabilities. The Indian economist Amartya Sen has been especially influential in this shift in thinking. His influence on Indian policy making does not seem to be a direct one, but the ideas that he advocates have trickled down to some extent, and it is likely that his Nobel prize has added some more weight to these ideas. Apart from Amartya Sen, there are many other 'carriers' of the capability approach within and outside India, especially in the field of education. There is the National Alliance for Basic Education. The international campaign against child labour has also emphasised the importance of education, as did UNICEF through its studies. There is debate about a Constitutional Amendment which would make elementary education compulsory. The achievement of the East Asian tigers and the role of education in this economic development is another factor that has contributed to the increasing awareness among policy makers of the importance of education.

Furthermore, in contrast to the traditional anti-poverty schemes, some of the 'new' schemes are seen as part of the reform process. To a certain extent this is so for the educational loan scheme, but a better example is the rural road scheme, introduced in 2000. According to one of our respondents, who was in the Finance Ministry during part of the 1990s, this scheme emerged from within the Ministry of Finance.

We could not check to what extent this is true, but it shows the identification within this ministry with this scheme. Several respondents referred to a study undertaken by the International Food Policy Research Institute (IFPRI), which showed the importance of rural roads in poverty alleviation. According to the report

> Government expenditure on roads has by far the largest impact on rural poverty. If the government were to increase its investment in roads by Rs 100 billion, the incidence of rural poverty would be reduced by 0.87 percent. For each Rs 1 million increase in investment in roads, 165 poor people would be lifted above the poverty line. These impacts on poverty are nearly twice as large as those of the next best poverty reducer – government investment in agricultural R&D. (Fan, Hazell and Thorat, 1999; summary from the IFPRI website).

Government spending on research and development ranks second, according to this study, in impact on poverty, and spending on education ranks third. The summary of this reports concludes that "[w]hile government spending on rural development (such as India's Integrated Development Programmes and Rural Employment Scheme) is an effective way of helping the poor in the short term, it now has little impact on the growth of agricultural productivity. Therefore, it contributes little to solving the poverty problem in the long run" (ibid).

Apart from a genuine belief that spending on human and physical (roads) infrastructure is the best way to reduce poverty, there are, of course, also other attractions. Roads, as one of our respondents said, are very useful for attracting votes. Moreover, infrastructural solutions appeal to the minds of the bureaucrats and the technocrats, because they suggest a 'quick fix' to poverty. "Rather than tackling difficult issues related to caste and gender inequalities, these programmes have concrete targets".

As the reference to the IFPRI reports suggests already, international organizations also influence policy ideas. Based on a study of the Integrated Rural Development Programme, Mathur (1996) concluded that, although policy makers claim Indianness, the programme is "strongly influenced by outsiders and particularly the West" (p. 196). His conclusion is very strong, but it is true, indeed, that the changing ideas within the Indian bureaucracy concur to a large extent with changing ideas within international organisations and international think-tanks. It is hard to say to what extent Indian policy makers are influenced by others or to what extent Indians themselves are part of making the international trends.

The impact of international organisations on social sector policy making is of various kinds. Some international organisations are not directly involved in policy advocacy, but they fund studies and programmes. The UNDP, for instance, publishes the annual Human Development Report, in which the Human Development Indicators (as well as other indicators) are calculated. The report is not very influential in itself, but the HDI rank that India gets is something that attracts attention every year. A low rank (115 in 2001) is regarded as humiliating, especially because India has so many resources and a stable government (as compared to several sub Saharan African countries). The UNDP stimulated individual States in India to bring out State human development reports, and in this way contributes to more awareness, and perhaps a competitive atmosphere among State governments, as State governments do not like their State to be ranked low.[38]

The World Bank influences social sector thinking and expenditure patterns in various ways. First, there is the impact on ideas and mind-sets. Its emphasis (and that of the IMF) on macro-economic adjustments, the importance of fiscal consolidation etc. has been taken on board by most Indian economic policy makers. To what extent these economists are really influenced or to what extent the ideas pushed by the World Bank happen to concur with policies they wanted to pursue anyhow, is difficult to say. Apart from the general macro-economic viewpoints, the World Bank has also pushed particular ideas about the state, governance, health and sanitation, etc.

Second, the World Bank (and other donor agencies) exercises an influence through the projects it is willing to fund. For instance, the World Bank (and DFID and some other donor agencies) co-funded the District Primary Education Programme, the anti malaria scheme, an AIDS programme, etc. These schemes come under the Plan. Since this foreign funding is made available for some schemes (and Plan sectors) rather than for others, it is likely that it influences expenditure patterns, and it may be one of the factors behind the shift from the traditional anti-poverty schemes (not supported by international donors) to 'new' human development interventions. In the long run the donor funding may also influence priority setting by the Indian government itself. According to one of our respondents, the foreign funded projects result in new priorities, new institutions, new forms of organisation, etc. which continue to exist and have an impact, even when the foreign project funding has stopped.

Apart from these large development/funding organisations, smaller organisations can also influence policy ideas. The International Food Policy Research Institute is already mentioned above. Another influential think-tank is Harvard's Centre for

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38. See, for instance, M.S. Swaminathan, "The best State: Eleven steps to excellence",

International Development, which has advised the Government of India on various matters. Its director Jeffrey Sachs was in India in September 2001, delivering a lecture on 'Investing in Health for Economic Development', in which he stated that India should "raise its spending on health services because of its impact on economic growth".[39] This is an obvious attempt to push the idea that investments in health should be seen as part of the reform process.

4.4 From Allocation to Expenditure

Theoretically, under normal circumstances, the role of the Ministry of Finance in decisions regarding social sector spending is limited. As explained above, most social sector spending comes under the Plan, and once the Plan size is fixed, it is the Planning Commission and not the Finance Ministry that decides about the sectoral allocation within the Plan. Yet, almost all our respondents who were involved in policy making in the 1990s agreed that, generally, the attitude of the Ministry of Finance mattered, and that this attitude towards social sector expenditure was not very supportive and that attempts were made to cut down on the social sector. Among the economists within the Finance Ministry there is a strong belief that the fiscal deficit should be brought down. As a retired civil servant formulated it: "These economists start with the fiscal deficit and they end with the fiscal deficit. They do not start with the hungry millions…". Expenditure on the social sector is regarded as residual. After all the other priorities are fulfilled, the government can think about the social sector. The following quote from Manmohan Singh, Finance Minister in the first half of the 1990s, illustrates this point nicely.

> Some people have criticised the stabilisation programme as being anti-poor. I admit that in an economy which has been living beyond its means, stabilisation does hurt. (...) It is true that the fiscal compulsions have forced us to restrain the growth of all expenditure, including social expenditure. But considering that interest payments are a fixed contractual obligation, that defence expenditure cannot be cut beyond a point because of the security environment confronting us, that expenditure on government administration cannot be drastically reduced without a wage and DA freeze or a sharp reduction in employment, that various subsidies cannot be removed overnight, we had very little option but to do what I did. Those who criticize the cuts in social spending should tell us what other expenditure could be cut to make room for increased spending on social sectors. (Singh, 1992: 3-4)

39. 'Spend more on health: Sachs', *Hindu*, 9 September 2001.

Once the allocations are made, there are still various ways in which the Finance Ministry can influence expenditures. First, there is a once-in-five years appraisal procedure. After the Plan is approved, all the schemes have to be appraised by the Expenditure Finance Committee. This committee is presided over by the secretary expenditure, one of the three main secretaries of the Ministry of Finance. Other members are the adviser to the Planning Commission who is in charge of project appraisal, and the secretary of the concerned ministry. The EFC can suggest scheme and budget modifications, measures to maximise cost effectiveness, etc. Once the scheme is approved, it will normally not have to be re-appraised again, except in the case of changes in the basic parameters.

Second, there are mid-year expenditure reviews. When a particular department has not yet spent what it had planned to spend, the budgeted allocation can be brought down. Revised estimates are often lower than budget allocations (except in the case of open-ended subsidies like the food subsidy). This issue of underutilization of allocated funds will be discussed below, but it is important to mention here already that it can result from deliberate or semi-intentional delays within the concerned ministry or within the Ministry of Finance. Within each ministry there is a financial adviser who has to give the green light for a request for the release of funds from the Ministry of Finance. According to one of our respondents these financial advisers are put under pressure in fiscally difficult periods by the secretary expenditure to control the money as tightly as possible. Delay can also be created after the demand for release has been made, for instance by sending the file back with a request for more information about utilisation of the funds in the past so-many months or years.

Once there is a perceived need to cut down government expenditure, it is Plan expenditure which suffers most. The non-Plan expenditure consists of several items (listed above by Manmohan Singh) which are considered as very difficult to reduce. Within the Plan, the preference is to cut down on what planners call 'elastic', 'incremental', or 'compressible' expenditure, such as most of the social sector expenditure. Indian planners prefer not to cut down on capital investments.

Different reasons were given by the various planners and policy makers we interviewed. First, there is the identification of development with capital investment. There is a strong belief that, in the long run, it is especially investments in power and infrastructure that will lead to development. Second, both bureaucrats and technocrats in the government prefer concrete targets. Spending on physical infrastructure gives concrete results, while the results of revenue expenditure are not or much less measurable. Even when there is corruption in capital investments, at the end of the day, there is a road or a power station. Third, there is a reluctance to spend money on salaries for schoolteachers and doctors "who do not do their duty". A fourth argument that may play a role is the importance of the Contractor Raj. Generally, capital investment is done through private contractors, who have become a powerful interest group with close connections to politicians. A lot of money is siphoned off, and disappears in the pockets of the contractors themselves or of those who were instrumental in giving them the contracts.

An important phenomenon of social sector expenditure mentioned by many respondents is the underspending of the allocated resources. Underspending hardly occurs in non-Plan expenditure, but it does occur in most years in most sectors in the Plan. Labour and employment is a big underspending sector, but also the other sectors underspend most of the years.

The problem is even worse when one looks at mid-year utilisation rates. This has been done in a study by Rajaraman (2001a and 2001b). The study focuses on some major schemes of the Ministry of Rural Development for the year 2000-2001. The utilisation rates of these funds, for most of the schemes, were less than 50% of the funds allocated for the first six months. In other words, in the first six months, less than 25 per cent of the annual allocation was used. The utilisation rate of the two major employment schemes (the Employment Assurance Scheme and JGSY, the successor of JRY) was 42 per cent (of 50 per cent). This, according to Rajaraman, is especially surprising, "since the first six months of the fiscal year from April encompass the agricultural slack season, when the demand for rural employment should be at its peak." (Rajaraman, 2001a:20). The utilization rates at the end of the year are, however, much higher "suggesting hasty, wasteful utilisation in the second half of the fiscal year" (ibid: 20). Underutilisation of funds seems to be more in the poorer States. "A simple regression shows a statistically significant rise in the mean mid-year utilisation rate of 4 per cent for every increase in the SDP of Rs. 1000 per capita. The worse-off states are also less efficient in using JGSY funds" (Rajaraman, 2001b). So, although these schemes are meant to alleviate poverty, the poor States make less efficient use of them than the better-off States.

Several reasons were mentioned by our respondents explaining this underutilisation. First, new schemes bring new guidelines and require new procedures. It takes time before these State governments or local bodies are fully aware of these and able to fulfill the criteria. Second, for some schemes, the central government gives a grant which has to be complemented by matching funds from the States. If these matching funds are not available, the CSS grant will not be given. Third, there can be a deliberately created or unintentional delay in the central bureaucracy, with spill-over effects for next year's allocation (which is partly based on spending figures of the previous year). Fourth, some schemes presuppose the availability of local infrastructure, such as rural primary health centres. If this infrastructure does not exist, schemes make no sense and funds are not allocated. Some central schemes are also not relevant in each and every State. Fifth, there may be other forms of institutional disability or disinterest. State governments may not be able to get their act together and design a plan (for instance for a rural road) and can therefore not receive the money. It may also be that low priority is given by some State governments to implement the schemes. This can be the case, for instance, when the States are ruled by a party that does not participate in the central (coalition) government. It may also be that there is hidden or open opposition.

This last point raises the issue of which stakeholders have which kind of interests in social sector development and/or funds. As described, many economists and planners within the government give more weight to bringing down the fiscal deficit or capital investments than to social sector expenditure. At the same time, however, some politicians at the central level use the schemes to increase their visibility and may hope to attract voters by increasing allocations. As far as social sector expenditures do affect voting behaviour, the latter have an interest in raising social sector expenditure and a relatively proper implementation.

This may not always be true in the same way for the politicians at the local level and the more powerful local people. On the one hand, as documented in several studies on the implementation of anti-poverty policies, locally powerful people have often been able to capture a large share of the funds. The integrated rural development programme (IRDP), for instance, which is an outright cash subsidy, is vulnerable to misappropriation by the local rich (Sharma and Mamgain, 2001: 274-5). The Planning Commission also states that "[I]nstances of non-poor getting selected and the poor being left out have not been infrequent.". The report further states that there are leakages, misappropriation of funds and middle-men capturing the subsidies (GoI, 2000:207).

On the other hand, there are also cases where the locally powerful groups have no interest in social sector schemes and human development generally, and actively oppose such development efforts. Literacy campaigns and universal education are a case in point. The opposition goes a long way back, as the following quote makes clear.

> The ancient *Smriti* political and legal system drew up vicious punishments for sudras seeking learning. (In those days, that meant learning the Vedas). If a sudra listens to the Vedas, said one of these laws, 'his ears are to be filled with molten tin or lac. If he dares to recite the Vedic texts, his body will be split'. That was the fate of the 'base-born'. The ancients restricted learning on the basic of birth. (Sainath, 1996:49)

In modern times, the laws have changed, but discrimination on the basis of gender and caste continues to exist. Schools are often hostile places for girls and lower-caste children, and this is partly deliberate. After all, "[w]hen the poor get literate and educated, the rich lose their palanquin bearers" (Sainath, 1996:50, quoting an unnamed writer). There are vested interests in the social status quo, and education is perceived as a threat to this social order. This fear also means there is no interest in spending money on education. The Uttar Pradesh government, for instance,

> has taken little interest in the Total Literacy Campaign, even after the considerable potential of that campaign had been well demonstrated in several other states [or perhaps rather, having seen this potential]. The under-utilization of large grants earmarked for the promotion of elementary education (...) is yet another symptomatic indication of the low priority given to basic education by the state government" (Dreze and Gazdar, 1996:88; our addition in [ ]).

So, the point is that at various levels within the Indian bureaucracy and society generally, there are different interests in social sector funds. While some of the Union ministers have an interest in announcing schemes and stepping up expenditures, the local elites in the States may sometimes share an interest in the funds *per se,* but not necessarily in the proper utilisation. In other instances, they will prefer the funds not to be used at all.[40]

4.5 Conclusion – Process, Preferences, Interests and the Wider Political Economy

This chapter has discussed the budget making process. We started with a discussion of the politics of the Centrally Sponsored Schemes. We then described the budget-making process in more detail, both for the social sector items coming under the

40. See also footnote 4 of Kurian (1989), in which he notes that the higher echelons of the bureaucracy and of politics have a "more egalitarian outlook and sympathy for the cause of the poor" as compared to their colleagues at the grassroots level. This, according to Kurian, is because of their more cosmopolitan (educational) background and their more informed idealism, but also because "they do not have to face the realities of the rural power equations and economic conflicts", unlike their grassroots colleagues.

Plan, as well as for the food subsidy. We have analysed the changes that have occurred in ideas about how the government should address poverty, and have finally discussed the discrepancy between allocations and expenditures and the reasons behind this.

Although there were small excursions to the wider political economy, the analysis has remained close to the decision making process. We have focused mainly on the preferences, viewpoints and interests of the main policy makers. For a full understanding of the budget making process, it would be necessary, of course, to contextualise these in the changing structures of the Indian state and society. In the context of this study, this was impossible, but we would, nevertheless, like to make a few remarks. There are at least three types of structures policy makers have to reckon with: the class structure within India, the political landscape, and the international context. All these three sets of structures determine the arena in which Indian policy makers operate.

In the case of food policy making, it is very clear which class interests have influenced policy decisions; in other instances it is less immediately obvious, but yet plausible that class factors play a role in policy making. The low level of expenditure on the social sector throughout the 1990s, even lower than in the 1980s, has to be seen in the context of the economic reform process, which is a biased and partial process benefiting particularly the urban and rural elites and contributing to a further concentration of wealth and assets. (See, e.g. Harriss and Corbridge, 2000 about the partiality of the reforms). Referring more concretely to the trends described above, it is likely that the preference of Indian planners to spend on capital investments is shared, and perhaps even influenced, by sections of the industrialist class. It is also likely that sections of the industrialist class prefer a literate and relatively healthy working class, and therefore prefer programmes and activities addressing these issues, rather than a policy which would force them to contribute to employment generation by developing/focusing on labour intensive technologies.

It is also clear that social sector decision making is influenced by the characteristics of the wider political arena. India is a democracy which has become 'increasingly democratic' but also 'increasingly difficult to govern' (Manor, 1988:72; see also Yadav, 2000, about the increasing political participation of the socially deprived categories of people). Although other issues (such as caste and religious identities) play a very prominent role in elections, most political parties do not (want to) rely exclusively on these mechanisms. The increase in social sector spending in 1993 was, according to several of our respondents, directly related to the loss of the Congress (I) party in several State Assembly elections. The idea among some of the political leaders was that, if more money would be made available for the poor, election results could be improved. The shift in ideas and policies after 1996 (i.e. away from the traditional anti-poverty programmes) did not go together with an increase in expenditure, but perhaps, it is possible to see a political rationale here as well. Perhaps it is possible to interprete this shift as an attempt to appeal to majorities/voters in a new way. Congress, as a traditionally secular and socialist (in name) party, used to appeal to the majority by addressing them in class/economic terms, as 'the poor'. It then makes sense to have large-scale anti-poverty programmes, meant for the unemployed. With the demise of the Nehruvian ideology/model and with a pursuit of an economic model that is clearly no longer socialist (i.e. even less socialist than the previous model was), it makes no longer sense to address the majority in economic terms. The human development terminology helps to solve this problem, as it stresses backlogs in development, rather than fundamental economic inequalities. The emphasis on education, rural roads etc., one can hypothesise, helps to address new, and potentially wider, constituencies. More research would be necessary to prove or falsify this hypothesis.

And finally, there is an international dimension to policy making. India has to defend its social as well as economic policies in various international forums: the World Bank and the IMF primarily when it comes to economic policies, and international conferences (Social Summit in Kopenhagen, for instance), international campaigns (e.g. child labour) and organizations like the ILO, UNDP, UNICEF when it comes to social policies. It is also within this international community that India (as any other country) has to seek legitimacy for its policy decisions. The trends and shifts in Indian social sector policy making do indeed reflect the various international pulls and pushes: the emphasis on fiscal consolidation and macro-economic adjustment (as demanded by the IMF and the World Bank) on the one side, and the international emphasis on human capability development and governance issues on the other.

5. CONCLUSIONS

In this paper we have discussed the content of social sector budgets and changes therein, the official justification of budget allocations and the budget making process. The analysis of the content reveals that not much priority is given in India to social sector expenditure. The levels in the 1990s are low, as compared to the 1980s, as compared to other developing countries (and certainly as compared to East Asian countries) and as compared to the international standards as developed by the UNDP.

The performance of the States has been even worse than the performance of the Centre, even though the States have the major responsibility.

Some advocates of the economic reform process have claimed that one of the objectives of the reforms is to withdraw the state from some of its economic activities, in order to step up expenditures for, and increase involvement in, the social sector. In a sense, we can conlude, these advocates have been proved right. Indeed, since the mid-1990s, a higher proportion of government expenditure has been allocated to the social sector. Yet, at the same time, we have to add that, as a proportion of GDP, social sector spending has not increased. As far as there has been any improvement, it is marginal.

The analysis of the budget speeches shows that the poor are very important in the justification of the budgets. The official argumentation is that the poor would benefit from the economic reform process. Nothing, however, is said about social inequality and redistribution of wealth.

The analysis of the budget making process reveals that the process is not very participatory or democratic. The role of the Finance Ministry in the process of Plan and budget making has increased in the 1990s. Many policy makers and/or economic advisors to the government seem to regard the Plan in general or social sector spending in particular as residual. In times of a fiscal crisis it is in the social sector that the first budget cuts are made.

In short, we can conclude that, despite all the lipservice being paid, there is an evident elitist bias in social sector policy making. In principle, most politicians and policy makers would like to be able to spend more money on poverty alleviation and human development.[41] The difficulty is to cut down on other expenditures. The social sector is obviously not on top of the priority list of most policy makers. There are other things that need to be addressed first. This elitist bias is not surprising. For many planners, poverty is an abstract kind of thing. Some are born in villages and still go back now and then, but others have become really cosmopolitan, and fly more often to the West than that they stay in an Indian non-urban environment. Generally, the Indian policy elite comes from the upper class and caste groups, and even when this is not the case, they stand apart from the majority of the Indian population because they are well educated in good public or private schools and

41. Although, as one of our respondents suggested, there may also be a category of economists who regard the whole discussion about poverty as a 'nuisance', and who think that the importance of poverty is exaggerated by people who have developed a vested interest in its existence and continuation.

universities, sometimes even abroad. Many have a background in economics, and are therefore used to model and conceptualise the world in particular ways. It is very likely that these experiences (and also lack of experiences) give them a particular (and partly shared) worldview, which probably differs quite a lot from how a poor agricultural labourer in Rajasthan or Orissa views the world.

This bias in policy making, although not preferable, is inevitable to a large extent. Only well educated people with a lot of resources are able to climb up to the level of 'advisor' to the Planning Commission or secretary in the Ministry of Finance. It would not surprise us, however, if this bias in policy making is becoming even more pronounced in these days of globalisation, rather than less. True, there is caste reservation within the government, which probably leads to a higher representation of the lower castes in government jobs. But, on the other hand, differentiation and polarisation in social and cultural terms also intensifies. There is a large group of people for whom globalisation so far has only posed threats: handloom weavers, small farmers threatened by the WTO, labourers working in industries threatened by cheap imports, etc. (See, for instance, Kothari, 1997). On the other hand, there is a large urban middle class benefiting from the opening up of the markets, enjoying a western consumption pattern and regularly traveling abroad. The social divide between these two groups becomes wider rather than narrower, and it is mainly from the latter group that people are recruited who ultimately become the policy decision makers.

We would like to conclude with two observations. First, there is an urgent need for stepping up social sector expenditure. At the same time, given the characteristics of the budget making process, it is very unlikely that this is going to happen in the near future. A substantial increase in the allocation for the social sector is only likely to happen when something changes in the budget-making process. In that respect, movements towards decentralised planning and increasing awareness among the public about budgets are to be welcomed. They can play a very important role in involving a wider group of people in the budget making process and, thereby, in changing the policy bias and the content of the allocation decisions.

Second, although a bit outside the scope of this paper, there is an obvious need for a better utilization of the allocated money. It is a well-known fact that the effectiveness of many of the Central and State social sector schemes is poor. Sections within the government itself are also very much aware of this. We mentioned already that the Mid-Term Appraisal of the 9th Plan, for instance, is very critical about the implementation of many schemes. Several people within the Planning Commission seem to think that the quality of governance has deteriorated seriously and that there is no point hiding this any longer. Of course, this awareness within the corridors of power is very important indeed. Whether something is going to change for the better will, however, depend mainly on activities and pressures from the grassroot level, vigilance of civil society and the ways in which these local groups can and will be involved in the policy process.

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APPENDIX 1

Note on Methodology and Sources

In Chapter 2 the trends in social sector expenditures are examined at three levels: (a) combined Centre and States (b) Centre and (c) States . The expenditures refer to both plan and non-plan. Some of the earlier studies used only revenue account for analysing social sector expenditures[42] . In our study, both revenue and capital expenditures are included.

There are different ways of examining the trends in budget expenditures. One way is to look at social sector expenditures as a proportion of GDP or GSDP (Gross State Domestic Product) in the case of the states. A second way is to calculate social sector expenditure as percentage of the aggregate budget expenditure. The third option is to look at the real per capita expenditures for the social sector. We use all three approaches when we discuss the aggregate social sector expenditure. For the major and minor heads, the analysis is restricted to proportion of GDP or GSDP.[43]

The main data sources used in the paper are: (a) Central Budget papers (Vol. 1 and II) of Government of India (b) Reserve Bank of India's (RBI) Bulletins and (c) Indian Public Finance Statistics, Ministry of Finance, GOI

The details of data sources are as follows: (a) Indian Public Finance Statistics, Ministry of Finance, Government of India for Combined Expenditure of Centre and States; (b) Expenditure Budgets of GOI, Vol. I for Central Government expenditure; (c) Reserve Bank of India (RBI) Bulletins for aggregate expenditure of 25 states and expenditures of major 15 states; (d) Economic Survey 1999-00, 2000-01 for the expenditure on Basic Minimum Services (BMS), Whole Sale Price Index Numbers (WPI); (e) Handbook of Statistics on Indian Economy, RBI, 2000 and Indian Public Finance Statistics, Ministry of Finance for GDP at market prices; (f) Handbook of Statistics on Indian Economy, RBI, 2000 for mid-financial year population. One limitation of RBI bulletin data is that it does not give details on minor heads at state level.

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42. See Prabhu (1997)

43. The shares of expenditures in total budget expenditures and real per capita expenditures for major and minor heads are available with the authors.

APPENDIX 2

List of People Interviewed for the Study

Prof. C.H. Hanumantha Rao, 13.8.2001
Dr. E.A.S. Sarma, 13.08.2001 and 05.09.2001
Mr. S.R. Sankaran, 16.8.2001
Mr. B.P.R. Vithal, 17.8.2001
Mr. R. Ramaswamy Iyer, 21-08-20
Mr. Jairam Ramesh, 21.08.2001
Dr. Seeta Prabhu, 21.08.2001
Ms. Neera Burra, 21.08.2001
Dr. Pradeep K. Sharma, 21.08.2001
Dr. N.J. Kurian, 22.8.2001
Mr. John Woodall, 22.8.2001
Prof. Shankar Acharya, 22.8.2001
Dr. Arvind Virmani, 23.8.2001
Mr. H. Mahadevan, 23.8.2001
Dr. Pranob Sen, 23.8.2001
Dr. G.S. Ram, 24.8.2001
Mr. R.A. Mital, 24.8.2001
Prof. S.K. Goyal, 24.8.2001
Dr. Ajit Mozoomdar, 27.8.2001 and 31.8.2001
Mr. Gajan Pathmanathan, 27.8.2001
Dr. Meera Chatterjee, 27.8.2001
Prof. G.K. Chadda, 28.8.2001
Dr. N.C. Saxena, 28.8.2001
Dr. Rohini Nayyar, 28.8.2001
Ms. Renana Jhabvala, 29.8.2001
Dr. S.P. Gupta, 29.8.2001 and 31.8.2001
Mr. V.B. Eshwaran, 29.8.2001
Prof. Abhijit Sen, 30.8.2001
Prof. Amaresh Bagchi, 30.08.2001
Prof. Kuldeep Mathur, 30.08.2001
Prof. Ganshyam Shah, 30.08.2001
Prof. Prabhat Patnaik, 30.08.2001
Mr. K.R. Venugopal, 05.09.2001