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Social sector priorities: an analysis of budgets and expenditures in India in the 1990s

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Summary

This paper analyses social sector priorities of the Indian government in the period 1990–2001. This is done by a study of the most crucial policy documents: the annual budgets. The budgets are studied from three angles: (a) the budget speeches, that is the justification that the government gives for its allocation decisions and expenditures, (b) the actual expenditures, and (c) the budget making process.

The study of the budget speeches shows that the poor play an important role in the justification of economic policies. Nothing, however, is said about social inequality and redistribution of wealth. In the course of the 1990s, the (implicit) conceptualisation of poverty changed in the budget speeches. Initially the main emphasis was on income and employment. From 1996 onwards, the emphasis shifted to include other human development aspects, such as health, education and housing, but also rural roads. This shift in prioritisation in the budget speeches corresponds with a shift in expenditure patterns. From 1996 onwards, out of total social sector expenditure, the share for rural development (and especially for wage labour programmes) went down. The analysis of the budget making process revealed that the process is not very participatory or democratic. Although the Finance Ministers claim that the budgets are made for the poor, they are certainly not made in consultation with them. The balance of power between the Finance Ministry and the Planning Commission has shifted in favour of the former.

The paper concludes that, although the widening up of the concept of poverty is positive in a sense, within the overall context of structural adjustment it has facilitated the politically convenient neglect of other dimensions (income and work). There is an urgent need to step up anti-poverty and social sector expenditure, but it is unlikely that this is going to happen in the near future, unless there will be changes in the budget making process.

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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 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 rank in 2001 was 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 claim of the government that it is fully committed to address poverty and social development has continued over time. Today, if we are 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?

In this paper we analyse the social sector priorities of the Indian government in the period 1990–2001. In order to do this we have studied the most crucial policy documents of the Indian government: the annual budgets. It is in these budgets 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 justification. How does the government legitimise its allocation decisions and the real expenditures (whether in tune or not in tune with the allocations made earlier)? Second, there is the content of the budgets. What kinds of allocations are made, and what are the trends in the real expenditures? Third, there is the budget making process. What kind of stakeholders are involved in the process; whose interests are mainly represented; which ideas have dominated the process? This paper does all these three things. They are dealt with in Sections 2, 3 and 4 respectively.

As far as we know, not many studies have been done on social sector budget making in India. Most studies focus on expenditure patterns only and not on the budget making process. Examples of interesting work on expenditure patterns are the studies of Seetha Prabhu (1997; 2001). Another useful piece of work

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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: 1).

2 There is some controversy regarding the poverty estimates of the late 1990s.

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.

is by Guhan (1995), which focuses on trends in central government social sector expenditure. As far as these studies are about government priorities, they are deductive in their methodology, as they deduct priorities from expenditure patterns, and do not analyse the processes behind the figures. Basu's book (1995) is about the budget making process, but there is not much on the social sector in her work. There are a number of Non Governmental Organisations in India which undertake budget studies. Their emphasis is on the content as well as the process of formulating these budgets, i.e. whether this process was transparent and participatory. They generally focus on particular States and decentralised forms of budget making.

The main focus of this paper is on the central government, and the main question is how social sector priorities have changed in the course of 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. The rupee was devaluated, various international loans were taken to overcome the immediate problems, and a stabilisation programme was introduced. This was followed by an adjustment programme. The result has been that the economic development model in 2002 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 were also a special decade. There have been as many as four Parliamentary elections. The Congress (I) government was the only government that completed its term, from 1991 to 1996. There have been subsequent general elections in 1996, 1998 and 1999. The Congress (I) government was the only single-party government in the 1990s (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 9 centrist or left-wing parties. In 1998 the Hindu fundamentalist Bharatya Janata Party (BJP) became the biggest party and formed a coalition government, and the same happened after new elections were held in 1999. These economic and political developments form the backdrop of the changes in social sector priorities which we will describe in this paper.

Generally, the way in which poverty is addressed and social policies are regarded is related to the overall development strategy and political economy. India is no exception to that. In the first decades after Independence, India sought to modernise through industrial development, with substantive state involvement in key economic sectors. There were some land reforms, but there was no substantive land redistribution among the landless. The dominant idea was that rural poverty and underdevelopment would decrease and disappear as a result of industrialisation and, from the mid 1960s onwards, also as a result of agricultural growth. By the end of the 1960s, there was a spurt in poverty studies, showing that rural poverty was still a very serious problem and that, so far, not much had been achieved. An increasing number of economists became convinced that, though growth was important, it was not enough and that a "direct attack" on poverty was also necessary (Vaidyanathan 2001: 1808). This, together with political compulsions, made the then Prime Minister Indira Gandhi introduce a number of specific anti-poverty schemes. The main focus of these schemes was on employment creation, either through wage employment schemes or through self-employment schemes. The other major schemes were food related:

the Public Distribution Scheme and mid-day meals for school children. This reflects the then dominant conceptualisation of poverty, mainly in terms of income and calorie intake. Basic needs, a concept that became prominent in the Fifth Plan in the middle of the 1970s, included more than income and nutrition, but for some time these two elements remained by far the most important in the conceptualisation of poverty and in anti-poverty policies.

What we will illustrate in this paper is that in the 1990s again a shift occurred in the conceptualisation of poverty and the prioritisation of social policies. In short, the focus shifted somewhat from income and employment to human development, a much broader concept, which also includes education, health, housing, rural roads, etc. In the following section we analyse conceptualisations of poverty and social sector priorities as they appear from the budget speeches. The third section analyses the major trends in social sector expenditure. The fourth section is about the budget making process. The last section summarises the main conclusions. It suggests that the observed changes have to be understood against the background of the economic policies and the overall changes in India's political economy.

2 Poverty and the social sector in the budget speeches

Budget speeches are, of course, political documents and their content cannot be taken at face value. They are written for particular audiences. They package messages in particular ways, elaborating on some issues but maintaining a silence on others. Nevertheless, they present and justify particular allocation decisions and policies, and therefore reveal the way of thinking underlying these decisions and policies. What follows are our main conclusions resulting from an analysis of the thirteen speeches made between 1990 and 2002. The focus is particularly on how poverty and social policies were discussed by the subsequent Finance Ministers.

First, throughout the 1990s, the issue of poverty has played an important role in the justification of the economic reform policies. In the five budget speeches of the Congress (I) government (1991–1995) – the government that introduced the economic reforms – the poor figured in three main ways. First, the idea was that the poor need inflation control. This was their immediate interest. 'Inflation remains a difficult problem, and one to which we attach the highest priority, because inflation hurts the poor' (Budget Speech [BS] 1992: point 11). Second, economic growth (and, hence, economic adjustment) was considered to be good for the poor. In the 1991 budget speech, the Finance Minister stated 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' (BS 1991: point 8). So, the interests of the poor were used to justify the reform programme. It was, however, acknowledged that in the short term, the poor could suffer from the economic adjustment, and that this should not happen. The third way in which the poor figured is that the budget speeches stated explicitly that the government was committed to adjustment with a human face (BS 1991: points 8, 45). All budget speeches, but especially those of 1993, 1994 and 1995 elaborated extensively on anti-poverty programmes.

It was, hence, made very clear that economic growth and the reform policies were not ends in themselves. Neither were they meant for the rich.

> 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.
>
> (BS 1995: point 10)

Or to quote Yaswant Sinha, the Finance Minister in the BJP-led coalition governments:

> 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 weakest man I have seen and made sure that this budget is of use to him.
>
> (BS 1998: point 5)

Second, throughout the period 1991–2002, there was a great belief in the "trickle down" mechanism. Even though initially the poor could be negatively affected, there was an explicit assertion that in the end economic growth would help them. This belief in "trickle down" was not new in Indian development. In the first decades after independence, there was a strong belief that the benefits of industrialisation and agricultural growth would trickle down to the poor (ITRICK and ATRICK, as labelled by Saith, 1990). In the course of the 1960s and 1970s, however, the assumption had come under attack and additional interventions were introduced. The 1990 budget speech was still very critical of the trickle down mechanism,[4] but from 1991 onwards a belief that one may label as SAPTRICK became again prominent in the thinking of the subsequent Finance Ministers.

Third, throughout the 1990s, the conceptualisation of poverty was residual. The idea was that the poor were left out and should be brought into the development process. (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).[5] There have, however, been shifts in the *extent* to which poverty was conceived as residual. In the first years of the 1990s, it was acknowledged that poverty could be aggravated or additional poverty could be created, even though, in the long term, it was assumed, the benefits of growth would reach the poor. After 1998, this possible intensification or creation of poverty disappeared from the speeches.

A very clear example of this residual conceptualisation of poverty can be found in the budget speech of 1998, in which the Finance Minister said that: '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

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4 Point 23 of the 1990 budget speech is an explicit rejection of the trickle down theory of development.

5 See Bernstein (1992: 24).

an entrepreneur and run his own little enterprise' (BS 1998: point 18; italics are our addition). The major bottleneck, according to the Finance Minister, was just credit, and he tried to solve this through the extension of micro-credit facilities. In short, a simple capital injection was supposed to be a sufficient remedy against poverty.[6]

Fourth, the conceptualisation of poverty has become more multi-dimensional in the 1990s. In the period until 1995, the traditional anti-poverty programmes (focussing on income and employment, coming under the rural development heading) received most attention from the Finance Minister. The United Front governments (1996–1997), however, started to focus 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, a broad conception of poverty was adopted, which included various basic needs. With regard to the "traditional" anti-poverty schemes (mainly employment schemes), these two 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). This broad conceptualisation of poverty continued after the UF government was replaced by a BJP-led coalition government. From 1998 onwards, social policies were discussed as human development (sometimes called human resource development) policies. They included health, education, drinking water, housing, roads, food, empowerment of women, etc.

Fifth, this changing conceptualisation of poverty went together with an increasing emphasis on participation and new forms of governance. 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 was empowerment.[7] Another term that entered the budget speeches in 1998 was "self help groups", which would have to be stimulated, and which were supposed to play a beneficial role in local development processes. Table 2.1 illustrates this shift in terminology to some extent. The term "human (resource) development" was particularly prominent in the 1999 budget. In 2001 and 2002 there were separate headings "Human Development". Empowerment and self help are terms that are used mainly from 1998 onwards.

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6 The quote also reflects whom the Finance Minister addressed in this budget: the relatively successful entrepreneurial people who have enough assets themselves to sustain their success, and perhaps also the international financial agencies who, by then, had started to see microcredit programmes as the main strategy towards poverty alleviation. See Weber (2001).

7 Empowerment, by the way, does not mean changing the power relations or distribution of assets. It is about basic social services – important enough – and nothing else. 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).

Table 2.1 Frequency of terms used in budget speeches

	Poor/ poverty	Employ-ment	Human Develop-ment	Self help (groups)	Empo-wer (women, youth etc.)	Micro credit or finance	Equity/ inequal-ity/dist-ribution of income
1990	7	23	0	0	0	0	5
1991	22	10	2	0	1	0	7
1992	7	12	0	0	0	0	1
1993	4	6	1	0	0	0	0
1994	3	12	2	0	0	0	0
1995	30	18	2	0	0	0	1
1996	20	5	1	0	0	0	1
1997	9	8	2	0	1	0	0
1998	3	14	1	3	0	2	0
1999	12	19	7	6	8	0	0
2000	15	8	5	3	2	3	0
2001	7	4	2	3	3	2	0
2002	6	7	1	2	3	2	0

Note: This table is based on a simple word count. In the case of "poor", only references to "the poor" were counted, and not references to "the poor quality of our infrastructure", etc. In the case of "employment", all uses of the word "employment" are included. In the case of "human development", we checked for the word "human", and included all references to investment in (or enhancing) human resources, etc. In the case of "empowerment", references to empowered committees etc. were not included. In the case of equity, only references to social/income equity were counted.

Sixth, there was a consistent silence in the budget speeches in relation to 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 anti-poverty employment 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 thirteen budget speeches, except in the 2001 budget speech 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.[8]

Seventh, another consistent silence is related to the issue of redistribution. Poverty received considerable attention, but not social inequality. The creation of wealth was important throughout the 1990s, but the redistribution of it was not discussed. The first two budgets of the Congress (I) government in the early 1990s dwelled a bit on the contradiction of private wealth creation in a very poor country. They argued that wealth should be seen as a social product.

[8] It may be that a different picture would emerge when one would also look at the 5-year Plans.

> 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)

How this different attitude should have to be developed or enforced was, however, not clear at all. There was no policy proposal 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 austerity and trusteeship.

In various budget speeches, there was some reference to social equity. The only explicit reference (after 1991) was in the budget speech of 1996, where the Finance Minister reminded the audience that '2000 years ago Saint Tiruvalluvar had laid down the golden rule for the King's Ministers: (. . .) To be able to increase wealth, to lay it up and guard. And also to well distribute it, marks a royal lord' (BS 1996: point 145). This, however, was a statement made almost at the end of the speech, and was more like politically correct lip service than a correct characterisation of the content of the budget. In short, redistribution has never been a serious issue in the budget speeches.

3 Patterns of expenditure [9]

In this section we analyse expenditure patterns on the social sector. Social sector expenditure is defined as expenditure coming under "Social Services" and "Rural Development" as given in Central and State budgets. The head "Social Services" includes, among other things, education, health and 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. Expenditure on food policy/subsidy is not taken into account, because it is difficult to establish which component of that subsidy benefits the poor and which component benefits the foodgrain producers.[10]

Expenditure figures differ from allocation figures. The reason to analyse expenditure rather than allocation figures is that they give a better impression of the priorities. They are not so much based on good intentions, but are the concrete result of decisions *and* other social processes and compulsions. It is, however, interesting to analyse the gap between allocations and expenditures, and the reasons behind this gap. We will do this in the fourth section of this paper.

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9 See Appendix 1 for a note on methodology and sources.

10 Dev and Mooij (2002) includes the food subsidy.

There are three ways of examining trends in social sector expenditures. The first is to look at social sector expenditure as a proportion of GDP. The second is to calculate social sector expenditure as a percentage of overall government expenditure. The third option is to look at real per capita social sector expenditure. Table 3.1 does all these three things. It gives an overview of total social sector expenditure for the Centre and the States together for the period 1987–88 to 2000–01. The picture that emerges from these three ways of looking at trends in social sector expenditure is slightly different. As percentage of GDP, India spends around 6 to 8 per cent on the social sector. In 1990–91, the share in GDP was 6.78 per cent. Only in 1998–99 was a higher level 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 1999–2000 can be partly due to an increase in salaries as a result of the recommendations of the Fifth Pay Commission. As percentage 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, a higher percentage of government expenditure goes to the social sector 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.

Table 3.1 Social sector (social services + rural development) expenditure by Centre and States

	Social sector expenditure (revenue + capital)		
Year	As % of GDP	As % of aggregate public expenditure (revenue + capital)	Per capita expenditure (in Rs.), in 1993–94 prices
1987–88	7.74	25.29	562
1988–89	7.40	25.22	583
1989–90	7.64	25.19	633
1990–91	6.78	24.85	623
1991–92	6.58	24.28	599
1992–93	6.39	24.06	594
1993–94	6.46	24.58	623
1994–95	6.41	25.01	633
1995–96	6.40	25.95	675
1996–97	6.48	27.22	739
1997–98	6.60	26.95	789
1998–99	6.94	27.36	890
1999–00 (R)	7.55	27.69	1027
2000–01 (B)	6.97	26.61	959

R: revised; B: budget
Source: Estimates based on data from *Indian Public Finance Statistics*, GOI, (1995 and 2000–01).

On the basis of Table 3.1 different arguments can be made. Advocates of the reforms can claim that they are proved right when they say that the reforms are meant to reduce state intervention in certain sectors in order to increase expenditure on the social sector. After all, after the mid 1990s, there has been an increase in social sector expenditure taken as a percentage of overall government expenditure. Opponents of the reforms, on the other hand, can claim that the social sector has suffered in the 1990s because, as a percentage of GDP, social sector expenditure in the 1990s was less than what it was in the late 1980s.

Social sector expenditure in India is a matter of both the Centre and the States. According to the Constitution, many of the social policy areas are the responsibilities of the States, or they come under the concurrent list – meaning that both the Centre and the States are responsible. By 1998–99, the contribution of the States to overall social sector expenditure was 80 per cent. See Table 3.2:

Table 3.2 Share of States in the total social sector expenditure of Centre and States (%), 1998–9

Major heads	Share of States (%) 1998–99
1. Education, art and culture	88.1
2. Medical and public health, water and sanitation	89.3
3. Family welfare	85.9
4. Housing	44.6
5. Urban development	93.1
6. Labour and employment	60.4
7. Social security and welfare	89.2
8. Others*	21.2
9. Social and community services (1 to 8)	82.3
10. Rural development	64.2
11. Total (9+10)	80.0

*Others include scientific services and research, broadcasting, information and 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).

Table 3.3 gives an overview of the major heads within social sector expenditure (as percentage of GDP; central government only). The most striking change is in rural development expenditure. This expenditure was 0.47 per cent of GDP in 1990–91. It declined in the first two years of the reform period. The percentage increased significantly in 1993–94. In the post 1996–97 period, however, there was a significant decline in the expenditure again. In 1996–97 the Basic Minimum Services (BMS) programme was introduced. One might hypothesise that the funds for BMS came partly from the Rural Development outlay, although this was denied by the government at that time. It is important to note, however, that the two are not the same. Rural development expenditure is mainly employment schemes. BMS includes other minimum services. Education received 0.30 per cent of GDP in 90–91. This percentage declined marginally in the first two years of the reform period. The percentage increased significantly in 98–99 to 0.38. In the case of health, there were no significant changes in the percentages.

Table 3.3 Central government expenditure on social sector (plan and non-plan) (as % of GDP)

		90–91	–92	–93	–94	–95	–96	–97	–98	–99	–00	–01(R)
1	Educ., 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 and 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 and urban development	0.15	0.14	0.11	0.15	0.13	0.15	0.22	0.22	0.23	0.22	0.21
4	Information and broadcasting	0.08	0.06	0.05	0.05	0.05	0.05	0.04	0.06	0.06	0.06	0.06
5	Labour and 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 and 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	Basis Minimum Services (BMS)							0.18	0.19	0.21	0.21	0.23
	Total (8+9+10)	1.42	1.25	1.29	1.49	1.49	1.54	1.56	1.60	1.67	1.59	1.58

Source: Expenditure Budgets of GoI, Vol. 1

Table 3.4 illustrates these shifts within social sector expenditure even more clearly, as it shows the shares of the major heads within central government social sector expenditure. The share of rural development was high till the mid-1990s (30 to 38 per cent), but after 1996–97 the percentage started to fall drastically. In 2000–01, just 12 per cent of overall social sector expenditure was spent on rural development. The shares for water supply and sanitation and "other social services" increased and the BMS was newly introduced.

Table 3.5 gives more information on the changes within the rural development, education and health sectors. The category wage employment was, by far, the most important component within the rural development sector (with a share of more than 70 per cent in 1994–95) but this changed dramatically in the second half of the 1990s. The shares for social welfare and housing have increased considerably. In the case of education, there was a clear shift from secondary to elementary education. In the case of health, there were fluctuations but no clear trend. The significant increase in 2000–01 for other rural development programmes was due to the introduction of a rural roads scheme known as the Prime Minister's Gram Samrudhi Yojana (PMGSY).

Table 3.4 Percentage shares of major heads in social sector expenditure (central government)

		90–91	–92	–93	–94	–95	–96	–97	–98	–99	–00	–01(R)
1	Educ., 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 and 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 and 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 and broadcasting	5.41	5.10	3.86	3.06	3.19	3.27	2.80	3.69	3.54	3.78	3.89
5	Labour and 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 and 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
11	Total (8+9+10)	100	100	100	100	100	100	100	100	100	100	100

Source: Expenditure Budgets of GoI, Vol. 1

Table 3.5 Intra-sectoral allocation (%) in education, health and rural development: central government expenditure

	90–91	91–92	92–93	93–94	94–95	95–96	96–97	97–98	98–99	99–2000 (R)	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 and 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 and 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 welf.	16.2	15.0	17.2	15.8	13.2	13.7	12.4	13.9	15.3	21.4	16.2
Maternal and child health	6.9	7.2	5.4	6.0	6.3	11.0	11.9	13.6	15.3	13.6	15.2
Other services and 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

	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 and 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 security and welfare	--	--	--	--	--	6.6	7.0	5.8	6.8	7.6	6.2
Rural wage employment prog.	67.0	60.4	70.5	68.9	70.8	57.3	44.5	46.0	42.8	39.8	23.7
Other rural devpt. prog.	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 and family welfare refer to central government health schemes, hospitals and dispensaries, urban family welfare. Maternal and child heath was replaced by reproductive & child health in 1998–99; (3). Special programmes for rural development refer to Integrated Rural Development Programme (IRDP), Training of Rural Youth for Self Employment (TRYSEM), Drought Prone Area Programme (DRAP), Desert Area Development Programme etc. Rural wage employment programmes are Jawahar Rozgar Yojana (JRY) and Employment Assurance Scheme (EAS). Other rural development programmes refer to Development of Women and Children in Rural Areas (DWCRA), rural roads, million wells scheme and training.
Source: Vol II, budget papers GOI

The question is whether the same shifts away from rural development also occurred at the State level. Table 3.6 shows the social sector expenditure patterns of all 25 States. With the exception of 1999–2000, there is a general decline in expenditure on social services as well as on rural development. The head of water supply, sanitation, housing and urban development is the only exception. Education is the main head. Its share increased after 1993–4. See also Table 3.7. The share of rural development declined in the latter half of the 1990s. Within education the share of elementary education is about 50 percent.[11]

Finally, a very relevant question is where the money for the social sector comes from. This is hard to say. The Central government has no earmarked taxes meant for social development exclusively.[12] The expenditure, therefore, comes from (revenue and capital) receipts generally and from international loans and grants. Our expectation is that the share of international money in total social sector expenditure has gone up in the 1990s. We were unable to check this, except in the case of child-related development. In that sector the share of external aid has increased from 0.5 per cent in 1990–1991 to around 29 per cent in 1997–1998. On average for the 1990s, out of every 100 rupees spent on children around 20 rupees came from external aid.[13] With regard to the amounts raised within India, direct taxes (such as corporation tax and personal income tax) have become more important in the total tax revenue of the Government of

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11 There is, however, considerable inter State variation. In Bihar the share for elementary education was more than 60 per cent. In West Bengal and Punjab, it was less than 40 per cent. See Table 17 in Dev and Mooij (2002).

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

13 See HAQ (2001).

India, despite the continuous lowering of the income tax rate. 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.[14] In that sense, taxation has become more progressive. Tax evasion is, however, still an enormous problem.

Table 3.6 All 25 States expenditure (plan and non-plan) on the social sector (as % of GDP)

	90–91	91–92	92–93	93–94	94–95	95–96	96–97	97–98	98–99	99–00 (R)	00–01 (B)
1. Edu, sport, art and culture	2.78	2.66	2.62	2.53	2.47	2.48	2.42	2.42	2.57	2.94	2.58
2. Health and family welfare	0.85	0.82	0.79	0.80	0.75	0.75	0.70	0.72	0.73	0.80	0.76
3. Water supply and sanit., housing and urban devpt.	0.56	0.59	0.55	0.54	0.56	0.56	0.55	0.59	0.62	0.69	0.66
4. Information and publicity	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
5. Welfare of SC, ST and BC	0.34	0.34	0.33	0.32	0.31	0.31	0.31	0.32	0.32	0.35	0.33
6. Labour and labour welfare	0.08	0.07	0.07	0.07	0.07	0.06	0.06	0.07	0.06	0.07	0.06
7. Others	0.53	0.53	0.48	0.45	0.42	0.60	0.51	0.49	0.49	0.53	0.48
8. Total Social Services	5.14	5.01	4.85	4.71	4.58	4.76	4.55	4.60	4.80	5.38	4.87
9. Rural Development	0.84	0.84	0.88	0.86	0.68	0.57	0.58	0.57	0.61	0.68	0.59
Total (8+9)	5.98	5.85	5.72	5.57	5.27	5.33	5.13	5.18	5.41	6.06	5.46

Source: RBI Bulletins

Table 3.7 Shares of major heads in social sector expenditure of 25 States (%)

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 and family welfare	14.2	14.4	13.7	13.2
3. Water supply and sanitation, housing and urban development	9.4	9.7	10.7	11.4
4. Welfare of SC, ST and BC	5.6	5.7	6.1	5.8
5. Labour and 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 6)	85.9	84.5	88.7	88.8
8. Rural Development	14.1	15.5	11.3	11.2
9. Total Social Sector (7+8)	100.0	100.0	100.0	100.0

Source: RBI Bulletins

14 See Mooij and Dev (2002), Table A2.

To conclude, three observations can be made. First, the overall anti-poverty and social development expenditure has increased in the 1990s in terms of per capita expenditure. As percentage of GDP and as percentage of aggregate government expenditure, the picture is mixed. The question that comes up immediately is whether the expenditure levels should be considered as high or low. The answer to this question depends on the yardstick. In Dev and Mooij (2002), we used different kinds of yardsticks and concluded that the expenditure on the social sector is low, (a) as compared to what India used to spend in the 1980s,[15] (b) as compared to some other developing countries, and certainly as compared to East Asian countries, and (c) as compared to the norms/ratios that are developed by the UNDP for comparing and monitoring social sector expenditure at the country level.

Second, there has been a significant shift, starting from 1996–97 and visible both at the Centre and the States, away from rural development. Within the rural development outlay at the Centre, there is a shift away from rural employment schemes to 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. A relevant question is, of course, whether this shift is the result of relabelling and reclassification of schemes or whether it reflects a real change. To some extent, indeed, relabelling is a reason behind the shift, but (a) this does not explain the shift completely, and (b) this renaming and reclassification itself illustrates a shift in thinking in what is considered as the most important characteristic of a particular scheme.

Third, within education, there is a shift towards expenditure on elementary education at the Central level. There is no such trend at the State level. A further disaggregation shows that this increase is to a large extent (but not completely) related to the introduction and expansion of the midday meal scheme.

4 The budget-making process [16]

Most of the central government expenditure on the social sector is Plan expenditure.[17] 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, and he generally gives more priority to non-Plan expenditure. Often the Prime Minister (who is the chairman of the full Planning Commission) has to intervene to settle

15 This is not true when one looks at trends in per capita expenditure.

16 This section is based on interviews with more than 30 policy makers and other experts in the area of social sector plan/non-plan policy making. The list of people interviewed can be found in Appendix 2. The interviews were conducted under the condition of anonymity, and that is why there are no literal quotes from these interviews in the text. We do realise that the result is that there is a problem with the evidence of some of the statements made in this section. They are our interpretation of what the informants told us. For a more elaborate treatment, see Dev and Mooij (2002).

17 Approximately one quarter of aggregate government expenditure is Plan expenditure, officially meant for new programmes and initiatives. About three quarters of aggregate expenditure is non-Plan expenditure. This includes the recurrent costs of all government departments (mainly salaries), interest repayments, subsidies etc.

the matter. The trend since 1993–94 has been that the size of the Plan has come down as a proportion of total government expenditure, and that the size of non-Plan expenditure has gone up (Sarma 2001).

In principle, the decision of how to use the Plan money is left to the Planning Commission. In the course of the 1990s, the share of social sector spending within the central plan expenditure has gone up from 36 per cent in 1991–92 to 51 per cent in 1997–2001.[18] This may indicate the fact that many policy makers in the Planning Commission give priority to the social sector. It may also indicate the fact that the government has been withdrawing from energy, industry and transport, whose share in total central plan expenditure has decreased from 45 per cent in 1990–91 to 31 per cent in 1997–2001.

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, these members are all relatively old men. There is a widespread consensus that in recent times 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. The first option is considered as more desirable by many, but 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 fulfil the expectations in their previous posting. Moreover, 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, it can be concluded that the eminence of the Planning Commission has suffered in recent times, and its prestige eroded.

The status and importance of the Ministry of Finance, however, has only increased. The Finance Ministry is a crucial ministry, dealing with international agencies and in control of the release of funds to other ministries. As compared to 15 years ago, the balance of power between the Finance Ministry and the Planning Commission has shifted in favour of the former.

Within the Planning Commission there is a widely shared disillusionment with the traditional anti-poverty schemes. There is a widespread belief that money goes down the drain and that, at best, some current poverty can be alleviated, but that the employment that is created is not sustainable. So, many people believe 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 within the Planning Commission to be more open about poor governance generally and the failures of the delivery system in particular. The mid-term appraisal of the Ninth 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. The sixth chapter (on poverty alleviation

[18] With thanks to Dr N.C. Saxena, who pointed this out to us.

programmes) of the Mid-Term Appraisal of the Ninth Plan, for instance, reads as a long list of various kinds of failures of the 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). This critique of the delivery system also partly explains the preference for schemes with concrete and enduring results, such as infrastructure or education, rather than employment.

Thus disillusionment with governance is shared between the Planning Commission and the Finance Ministry. At the same time, it is clear that these institutions have a different policy outlook and that people working in them have a somewhat different mindset. To generalise perhaps a bit, the economists within the Ministry of Finance seem to be more concerned with overall fiscal and macro-economic processes, while the advisers to the Planning Commission are more concerned with social development, poverty alleviation etc. Unfortunately our information on these institutional differences is based on only a few interviews with people who worked in one or both of these institutions, but it would be interesting to study these differences in more detail. One of the differences that was mentioned to us is that for the Finance Ministry not only the Plan, but social sector expenditure generally, is residual. This is illustrated by the following quote from a speech by Manmohan Singh, the Minister of Finance from 1991 to 1996:

> 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)

Budgets are prepared once a year, and they are presented at the end of February. In the course of the 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. They have to be organised, because that is what happens every year, but within the trade unions, for instance, the belief is that the Finance Minister will listen to what they have to say, but that not much will follow from this.

As compared to the budget making process, the Plan preparation is highly consultative. In the course of the preparation of 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 were 13 working groups. The working groups have usually between 20–30 members. The various ministries and departments are normally heavily represented, but all working groups also include a number of academics or other experts, and most groups also include representatives from non-governmental organisations (NGOs), other voluntary organisations or trade unions. 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 chairperson 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, but will probably vary from case to case, and is probably not very much. 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 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. It seems that the influence of NGOs and other types of associations on policy making has increased over time. Although many government officials are still 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.

Politicians participate in the budget making process in several ways. First of all, of course, 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 includes 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. This possibility is not always made use of to the full extent, however, either because of lack of interest or expertise, or because the Parliamentary Session is dominated by other issues.

Voters may play an indirect role, but it is not clear to what extent they make their electoral choices on the basis of social sector policies and promises. It is clear that politicians think that voters have these considerations. Many schemes have a clear populist purpose. They are meant to appeal to (particular categories of) voters. The decision to step up rural development/anti-poverty expenditure in 1993, for instance, can be interpreted in this light.[19] As it happened, however, the Congress (I) party 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. It is impossible to draw firm conclusions from this. It could be that both governments (Congress

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[19] 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. The Prime Minister and others had started to worry about the political prospects of Congress (I) and the future of the reform process. They probably thought that the reform process could be made acceptable to a wider audience if more money would be spent on anti-poverty programmes.

(I) and United Front) were "punished" because their social policies were regarded as insufficient. It could also be that voters made their electoral decisions on the basis of other things rather than social sector policies.

4.1 From allocation to expenditure

An important phenomenon of social sector expenditure is 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 particularly big underspending sector (see Table 4.1).

Table 4.1 Extent of variation between budget estimates and accounts of central government plan expenditure on social sector (%)

	90–91	–92	–93	–94	–95	–96	–97	–98	–99	–00
1. Educ, sports, youth welfare etc	96	88	101	97	104	118	75	84	93	85
2. Health and family welfare	109	105	109	102	101	93	96	93	87	92
3. Water and sanitation, housing, urban development	121	84	97	110	92	94	98	94	90	86
4. Information and broadcasting	36	37	22	60	85	86	108	64	66	128
5. Labour and employment	24	73	33	27	36	53	48	24	34	67
6. Welfare of SC, ST and BC	107	100	105	100	116	97	102	72	83	89
7. Social welfare and nutrition	93	86	102	96	100	157	79	71	85	86
8. Total Social Services	96	88	100	99	100	106	87	84	88	87
9. Rural Development	100	84	122	111	96	101	94	96	99	87
10. Total (8+9)	98	87	108	104	98	104	89	88	91	87

Source: Expenditure Budgets of GOI, Vol 1

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 per cent 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 Jawahar Gram Samridhi Yojana [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 utilisation 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

(State Domestic Product) 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.[20]

Several reasons can be given to explain this underutilisation. First, new schemes (and there is a lot of reformulation and redesigning) bring new guidelines and require new procedures. It takes time before the State governments or local bodies are fully aware of these and able to fulfil the new criteria. Second, for some schemes, the central government gives a grant that has to be complemented by matching funds from the States. If these matching funds are not available, the central grant will not be given. Third, there can be a deliberately created or unintentional delay in the central bureaucracy, with spill-over effects for the next year's allocation (which is partly based on spending figures of the previous year). These delays can, for instance, be created by the Ministry of Finance since it occupies a strategic position and is crucial in releasing funds to other ministries.[21] 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 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 to particular schemes.

This last point raises the issue of the diverse and sometimes conflicting interests in social sector development and/or funds. Some economists and planners within the government may 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 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.[22] On the other hand, there are also cases where the locally powerful groups have no interest in social sector schemes and human development at all, and actively oppose such development efforts. Literacy campaigns and

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20 At the time of finalising this paper, a new publication of Rajaraman showed that overall utilisation rates of the employment schemes in 2000–01 was slightly better than in 1999–00, but the mid-term utilisation rate was equally bad (Indira Rajaraman, 'Panchayats can do it better', *Economic Times*, 11 July 2002).

21 Within each ministry there is a financial advisor who has to give the green light for a request for the release of funds from the Ministry of Finance. These financial advisors can be put under pressure in fiscally difficult periods by the Secretary Expenditure (of the Ministry of Finance) 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.

22 To mention just two recent publications, see Sharma and Mamgain (2001) and GoI (2000).

universal education are a case in point. The opposition against universal learning 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 basis 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 there are conflicting interests in the process of allocation, but also in the process between allocation and implementation.[23] The final expenditure is a result of both.

5 Conclusion

In this paper, we have discussed India's social sector priorities as they appear from the budget speeches between 1990 and 2002, actual expenditures on the social sector, and the budget making process. The analysis of the budget speeches showed that the Finance Ministers all want to give the impression that the budgets are made primarily for the poor. Poverty eradication, if one has to believe the Finance Ministers, is priority number one. Nothing, however, is said about social inequality and redistribution of wealth. There is an assumption that growth will lead to employment, which will be good for the poor, but this is more an article of faith than a substantiated point. Another phenomenon that became clear is that the

[23] 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.

conceptualisation of poverty changed in the course of the 1990s. Initially the main emphasis was on income and employment. From 1996 onwards, the emphasis shifted to include other human development aspects, such as health, education and housing, but also rural roads. This shift in prioritisation in the budget speeches corresponds with a shift in expenditure patterns. From 1996 onwards, out of total social sector expenditure, the share for rural development (and especially for wage labour programmes) went down. [24] Overall, the figures revealed that not much priority is given in India to social sector expenditure. In any case the expenditures are less than the international standards as developed by the UNDP. In some areas, they are also less than the targets of the Indian government itself.[25] Finally, the analysis of the budget making process revealed that the process is not very participatory or democratic. Although the Finance Ministers claim that the budgets are made for the poor, they are certainly not made in consultation with them, in whatever representation. The budgets are prepared mainly within the Ministries with little outside participation. The process of Plan preparation is more participatory. The balance of power between the Finance Ministry and the Planning Commission has shifted in favour of the former.

How should we judge and understand the shift in the conceptualisation of poverty? Most people would probably welcome a broadening up of the concept of poverty. The point is already long made in academic debates that poverty includes more than income, but that a whole range of human capabilities should be included (Sen 1985). The UNDP has also consistently made the point that human development includes much more than income only. There is, however, also a flipside to this broadening up. Within the overall context of structural adjustment, this turning away from income allows policy makers also to turn away from employment and work. The poor are no longer primarily the working poor, who need jobs, job protection and minimum wages. No, the poor are those who lack proper houses and proper roads, who are illiterate, who do not have access to health care facilities. The result of the broadening up is that employment issues are even less on the political agenda than they were 10–15 years ago.

The broadening up of the concept of poverty, hence, fits in well with the economic reform policies. The human development framework, sympathetic as it may be, helps in diverting the attention from the more structural characteristics of poverty. It suggests that poverty can be eradicated by add-ons, such as educational programmes, health centres, houses etc. There is not doubt that all these things are important in their own right, but there is no reason to assume that a literate and more healthy but poor and underemployed population will automatically find a place in an increasingly competitive and increasingly unequal economy.[26] More is needed to address the inequalities in Indian society than these human

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24 Sengupta *et al.* (2001) refer to this as the second paradigm shift – the first being the introduction of specific anti-poverty schemes after the realisation that trickle down did not work. Sengupta et al locate this shift in the middle of the 1980s. The expenses on rural development/employment are, however, high till the middle of the 1990s. The change in terminology in the budget speeches was also around that time, which is why we locate the shift only in the mid 1990s.

25 There is a long-standing commitment to increase expenditure on elementary education to 6 per cent. In reality, total expenditure on education (which includes secondary and tertiary education plus expenditure on education financed by departments other than the educational department) was never more than 4.07 per cent. The share of elementary education in this is less than 50 per cent (Dev and Mooij 2002: Table 5).

26 See Breman (1995) for a similar argument made in a critique of the 1995 World Development Report.

development related schemes. Apart from a redistribution of assets, something that is not very realistic at the moment, one can think of a consistent employment policy (involving, 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 more serious drive to increase income tax compliance, strategic price policies, the enforcement of existing minimum wage legislation and other legislation that protects the vulnerable sections of society, etc. There is no doubt that some of these policies go against the interests of a section of India's employers who are used to working with destitute contract workers only, who escape the law and pay hardly any taxes. But, in order to tackle poverty adequately more is necessary than making the poor literate and more healthy – without suggesting, of course, that these things are not very important in themselves. The human development framework helps in directing our attention to some dimensions of poverty, but it facilitates the politically convenient neglect of other dimensions.

There is another process that may explain the shift from an income related concept of poverty to the human development terminology. India is a democracy which has become 'increasingly democratic' but also 'increasingly difficult to govern' (Manor 1988: 72; Yadav 2000). Although 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 to appeal to voters. They also want to introduce policies that would enhance their popularity with the voters. Anti-poverty and social sector policies are frequently used for this purpose and the way in which these policies are framed and presented may tell us something about the way in which the ruling politicians want to address (particular categories of) voters. So, perhaps it is possible to interpret the shift from income/employment to human development as an attempt to appeal to majorities/voters in a new way. Congress (I), 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, mainly meant for the unemployed. With the demise of the Nehruvian ideology/model and with the pursuit of an economic model that is clearly no longer socialist (i.e. even less socialist than the previous model was), it no longer makes 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.

It is clear that, despite all the lip service being paid, anti-poverty policies and social development do not get the priority that they deserve. In principle, most politicians and policy makers would like to be able to spend more money on poverty alleviation and human development.[27] The difficulty is to cut down on other expenditures. The social sector is not on top of the priority list of most policy makers. There are other things that need to be addressed first. This bias is not surprising. For many planners, poverty is an

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[27] Although, as one of our informants 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.

abstract kind of thing. Some are born in villages and still go back now and then, but others have become really cosmopolitan, and fly to the West more often than 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 schools and universities, sometimes even abroad. Many have a background in economics, and are therefore used to modelling and conceptualising 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, say, 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 "adviser" 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. Yet 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. 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 travelling 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. 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 utilisation 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 Ninth 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.

Appendix 1

Note on methodology and sources

The social sector expenditures in our tables include Plan and non-Plan expenditure. Some of the earlier studies used only the revenue account for analysing social sector expenditures.[28] 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 a 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.[29]

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, various years.

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 the RBI bulletin data is that it does not give details on minor heads at the State level.

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[28] See Prabhu (1997).

[29] 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. Dr. C.H. Hanumantha Rao, 13.08.2001

Dr. E.A.S. Sarma, 13.08.2001 and 05.09.2001

S.R. Sankaran, 16.08.2001

B.P.R. Vithal, 17.08.2001

R. Ramaswamy Iyer, 21.08.2001

Jairam Ramesh, 21.08.2001

Dr. Seeta Prabhu, 21.08.2001

Dr. Neera Burra, 21.08.2001

Dr. Pradeep K. Sharma, 21.08.2001

Dr. N.J. Kurian, 22.8.2001

John Woodall, 22.08.2001

Prof. Dr Shankar Acharya, 22.08.2001

Dr Arvind Virmani, 23.08.2001

H. Mahadevan, 23.08.2001

Dr Pranob Sen, 23.08.2001

Dr G.S. Ram, 24.08.2001

R.A. Mital, 24.08.2001

Prof. Dr S.K. Goyal, 24.08.2001

Dr Ajit Mozoomdar, 27.08.2001 and 31.08.2001

Gajan Pathmanathan, 27.08.2001

Dr Meera Chatterjee, 27.08.2001

Prof. Dr G.K. Chadda, 28.08.2001

Dr N.C. Saxena, 28.08.2001

Dr Rohini Nayyar, 28.08.2001

Renana Jhabvala, 29.08.2001

Dr S.P. Gupta, 29.08.2001 and 31.08.2001

V.B. Eshwaran, 29.08.2001

Prof. Dr Abhijit Sen, 30.08.2001

Prof. Dr Amaresh Bagchi, 30.08.2001

Prof. Dr Kuldeep Mathur, 30.08.2001

Prof. Dr Ganshyam Shah, 30.08.2001

Prof. Dr Prabhat Patnaik, 30.08.2001

K.R. Venugopal, 05.09.2001

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