

FINANCING SOCIAL SECTOR BUDGETS


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Seminar on
DECLINING SOCIAL SECTOR BUDGETS

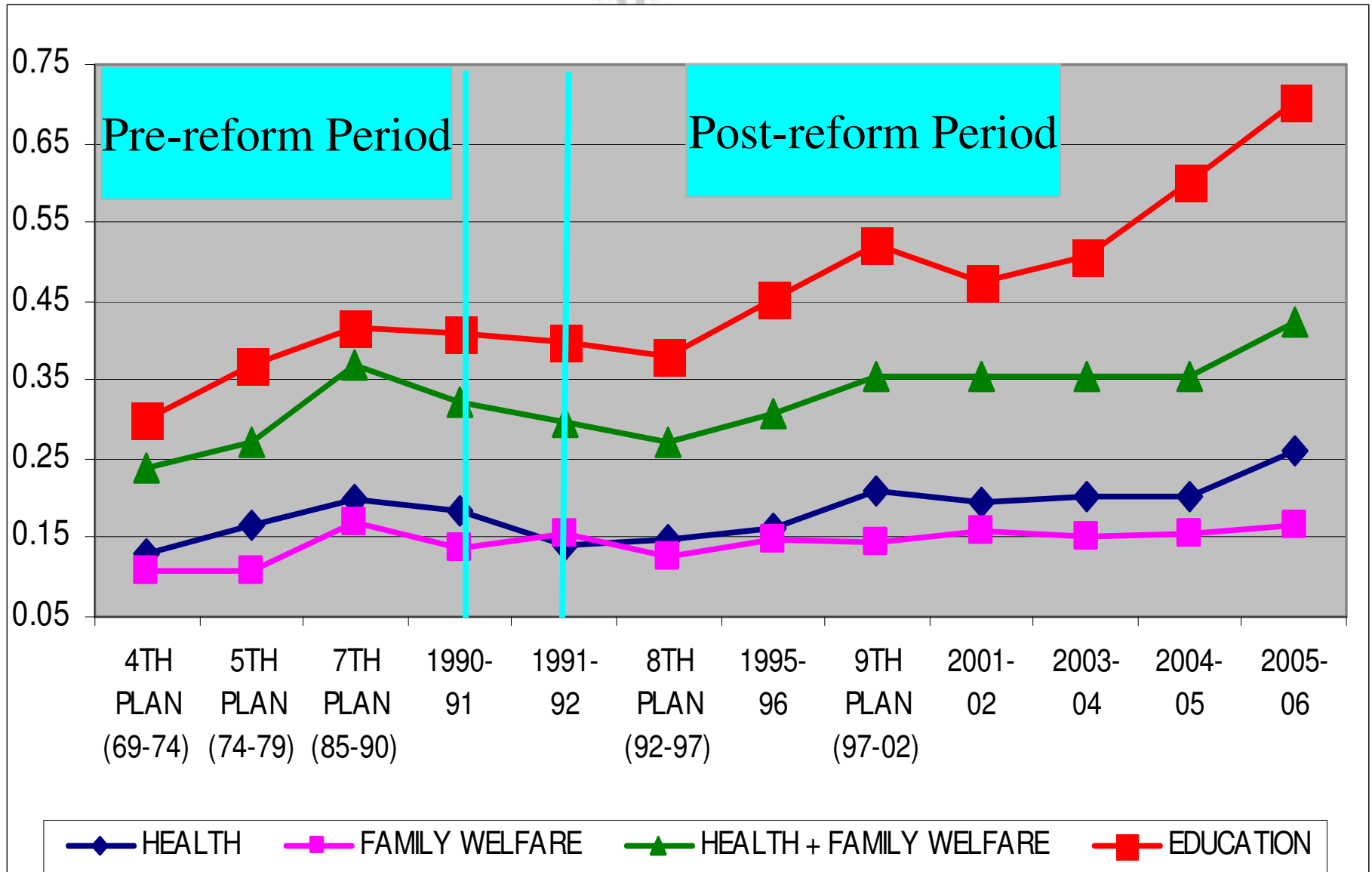
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SOCIAL SECTOR AND ECONOMIC REFORMS

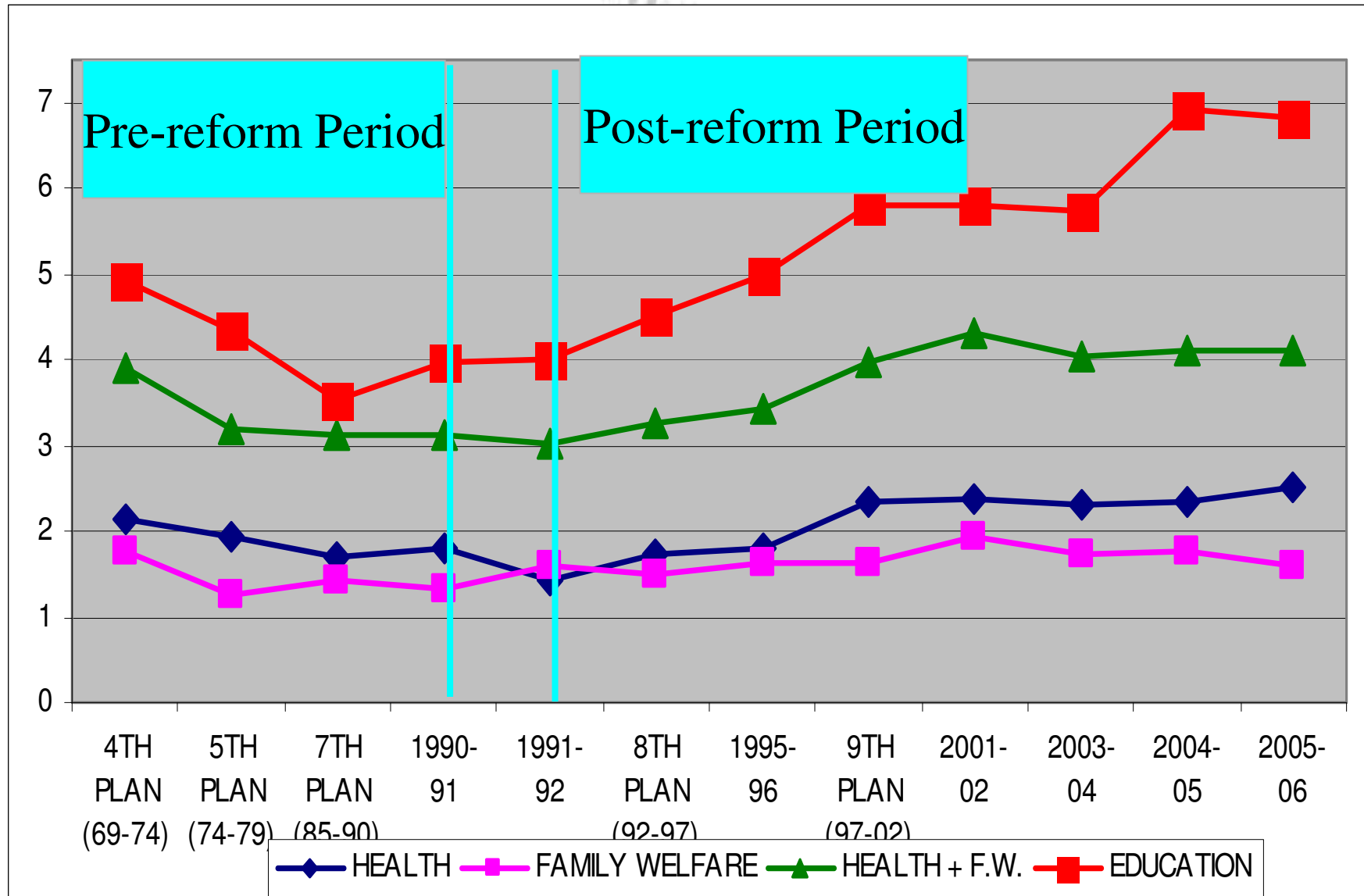
- ❖ There has been a perception that since the introduction of what have derisively been called "neo-liberal" reforms, the social sectors i.e. those dealing with education and health, have suffered.
- ❖ There are two ways of looking at this:
 - Ratios of expenditures on health and education to GDP
 - Ratios of expenditures on health and education to Total Expenditures.

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- ❖ Bearing in mind that state governments exercise significant control over the social sectors, it is important to be clear which levels of governments are being considered when we compute the ratios listed.
 - ❖ We have chosen for our computation "Plan outlay of the Centre, states and union territories".
 - ❖ The source of our data is the "Economic Survey: 2005-2006".

RATIOS TO GDP OF PLAN OUTLAYS FOR CENTRE + STATES + UTS (%)



PLAN OUTLAY OF CENTRE+STATES+UTs TO TOTAL EXP (%)



**AVERAGES IN PRE- AND POST-REFORM PERIODS:
RATIOS TO GDP (%)**

	Health	Fly. Welfare	Health + Fly Welf	Education
Pre- reform (1969-90)	0.17	0.12	0.29	0.33
Reform (1990-92)	0.16	0.15	0.31	0.40
Post- reform (1992-06)	0.20	0.15	0.35	0.53

AVERAGES IN PRE- AND POST-REFORM PERIODS: RATIOS TO TOTAL EXPENDITURE (%)

	Health	Fly. Welfare	Health + Fly Welf.	Education
Pre-reform (1969-90)	1.89	1.35	3.25	3.73
Reform (1990-92)	1.61	1.46	3.07	3.99
Post-reform (1992-06)	2.22	1.67	3.89	5.89

SOME CAVEATS

- ❖ Admittedly, we have used a narrow definition of expenditure on social sectors, namely, “plan expenditures of the Centre, States and Union Territories”.
- ❖ Possibly, using a different definition - say plan and non-plan expenditures or only state-level expenditures - may yield in different picture.
- ❖ Table on next slide shows the state level situation (Source: Rakesh Mohan (2005): “Human Development and State Finances”, RBI Bulletin, December, pp1123 - 1129).

(% of GDP)

Period	RD	SS Exp	Education	Health
1990-95	0.71	4.88	2.62	0.81
1995-00	1.65	4.84	2.59	0.75
2000-04	2.41	4.98	2.67	0.71
04-05 (RE)	1.44	5.08	2.47	0.69
05-06 (BE)	0.75	4.94	2.39	0.70

RD = Revenue Deficit; SS Exp = Expenditure on Social Sectors

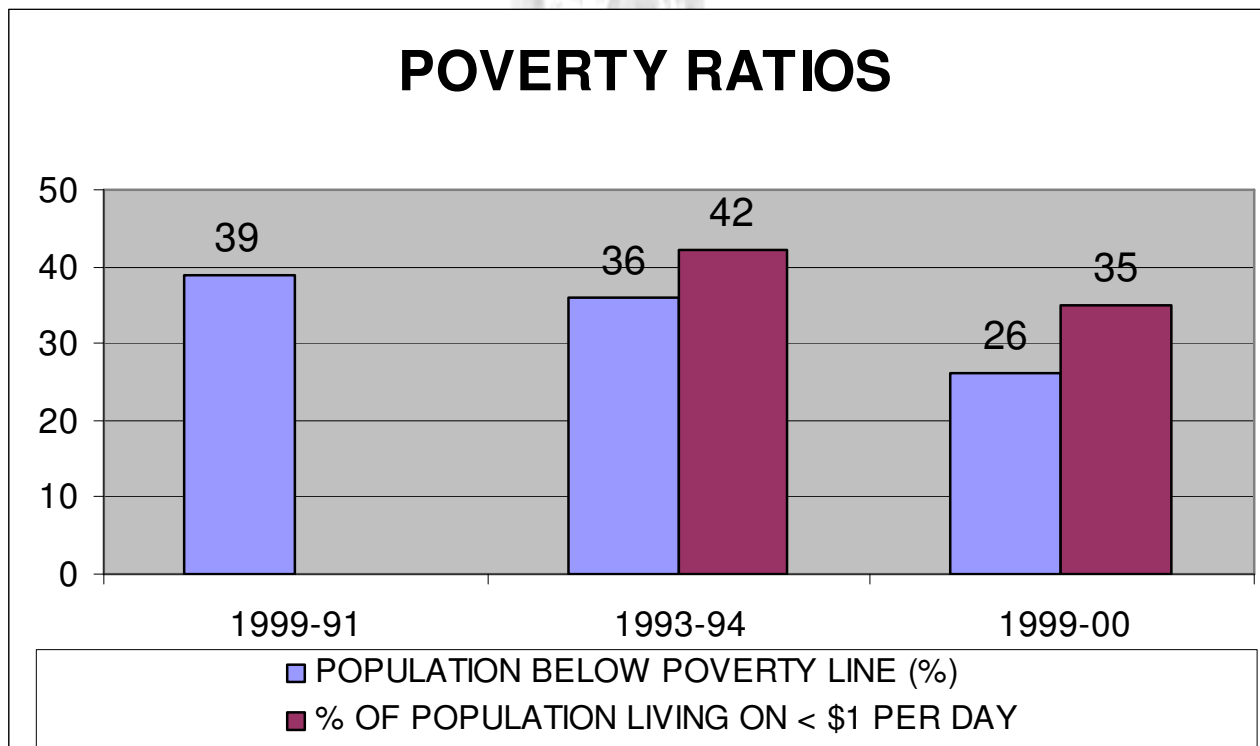
- ❖ The final caveat is that improvements in the ratios in the post-reforms period is **not to argue** that the social sectors are being adequately provided for.

A CONTRARIAN VIEW OF ECONOMIC REFORMS AND SOCIAL SECTORS

- ❖ However, what we have found is significant: expenditures, which are under the control of the government i.e. plan expenditures, have not suffered in the post-reforms period.
- ❖ The conclusion from this must be that the reforms process is not inimical to the social sector.
- ❖ Instead of quibbling over whether reforms have worked against the social sectors, we must concentrate our energies on more substantive matters such as: diverting more funds to this sector, improving the administrative machinery in the sector and improving delivery systems.

REFORMS AND GROWTH

- ❖ Just as economic reforms are not inimical to the social sector, they are not inimical to the most important objective in a poor country, namely, elimination of poverty.
- ❖ Consider the following:



- ❖ The process of decline in the number of persons below the poverty is a deeply human achievement of economic reforms.
- ❖ The absolute number of persons below the poverty line has been falling and about 65 million have been lifted above the poverty line in the first ten years of economic reforms.
- ❖ I need hardly labour the point that
 - those above the poverty line are not necessarily well-off
 - the poverty line, as defined, is an arbitrary construction. However, any alternative poverty measure would also show a similar beneficial fall in poverty and testify to the "human" aspect of reforms.

MUCH REMAINS TO BE DONE...

- ❖ While economic growth benefits all, it is not homothetic - those already better off do better than those who are worse off.
- ❖ This is where a focused role for the state emerges. But how much more should be done?
- ❖ The NCMP has suggested that expenditures on health and expenditures, which are currently at 1.5% and 3% of GDP, should be doubled by 2010.
- ❖ Slide on the next page shows the amount of expenditures that would be required to attain this objective.

PROJECTED SOCIAL SECTOR EXPENDITURES

- ❖ The following table has been created assuming that, in the year 2009-10, the level of expenditure on health and education is 3% and 6% of GDP, respectively.
- ❖ GDP is assumed to grow at 14% p.a. in nominal terms.

					(Rs. Crore)
	GDP	HEALTH	EDUCATION	H+E	Annual Increment in H+E
2004-05	3,105,512	46,583	93,165	139,748	
2005-06	3,531,577	70,632	123,605	194,237	54,489
2006-07	4,034,619	100,865	161,385	262,250	68,014
2007-08	4,609,315	138,279	207,419	345,699	83,448
2008-09	5,265,871	157,976	289,623	447,599	101,900
2009-10	6,015,948	180,478	360,957	541,435	93,836

ADDITIONAL MOBILISATION OF RESOURCES


- ❖ Clearly, the amount of expenditure required is enormous.
- ❖ For 2005-06, the revenue receipts (RE) of the centre and those of the states (BE) are Rs. 348,474 crore and Rs. 429,587 crore respectively, yielding a total of Rs. 778,061.
- ❖ As per the numbers on the previous slide, expenditure on health and education in 2005-06 will be 25% of revenue receipts for the year and this share is expected to rise.
- ❖ Just the increment in expenditure in 2005-06 over 2004-05 exceeds Rs. 54,000 crore.
- ❖ The question is: where are the funds to come from?

SOURCES OF ADDITIONAL REVENUE MOBILISATION

- ❖ It is often suggested that the additional revenues for the social sector should come from taxing the better-off sections of society. What will this entail?
- ❖ If the increment of Rs. 54,000 required for 2005-06 were to come from additional taxation, the tax-GDP ratio would have to rise from 10.5% to 12%.
- ❖ Bearing in mind, how long it has taken the tax-GDP to be revived to the current level, all the burden cannot be imposed on additional taxation.


RE-ALLOCATION OF SUBSIDIES

- ❖ The NIPFP, in its report of December 2004, has estimated that total (i.e. explicit + implicit) central government subsidies in 2003-04 were 4.18% of GDP, of which non-merit subsidies were 2.43% i.e. Rs. 67,069 crore.
- ❖ To this must be added the non-merit subsidies doled out by the state governments. No recent estimates of such subsidies are available. However, as far back as 1994-95, these were estimated to be Rs. 31,122 crores.
- ❖ Even assuming *no change in the level of state governments subsidies*, the total level of non-merit subsidies works out to Rs. 98,191 crore.

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- ❖ Re-orientation of these subsidies from undeserving beneficiaries towards the social sector can make huge sums of money available.
 - ❖ Illustratively, in a computation that we had carried out some years back, it was found that the savings in expenditure from a 5% hike the recovery rates of non-merit subsidies can help create enough PHCs, CHCs and Sub-centres to benefit almost 50 million persons.
 - ❖ But subsidies is a politically volatile subject and the Finance Minister has steered clear of it in his latest budget speech.

DISINVESTMENT/PRIVATISATION

- ❖ Privatisation has been a “bad” word for a long time, which is why the word “disinvestment” was created.
- ❖ Now, the word “disinvestment” has met the same fate and it has disappeared from the budget.
- ❖ No targets will be set for disinvestment, but whatever resources are garnered will be placed in an investment fund to be used for expenditure on the social sector and to strengthen the public sector.

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- ❖ One would have that with such a noble objective set for the investment fund, there would be no more objection to disinvestment.
 - ❖ But each disinvestment decisions has been a battle within the constituents of the UPA government.
 - ❖ The important question for us, however, is whether disinvestment can contribute to the social sector in a meaningful way.

SOME DETAILS OF PSUs

- ❖ The net fixed capital stock in public sector enterprises was Rs. 1,505,689 crore in 2004, which is over 40% of GDP.
- ❖ Total investment in 227 central PSUs of was as high as Rs. 300,000 crore in 2002-03.
- ❖ Just 10 PSUs accounted for 70% of total profits earned.
- ❖ 107 enterprises made losses of Rs. 11,000 crore.

CASE FOR AGGRESSIVE DISINVESTMENT


- ❖ Much of the capital stock locked in PSUs can be better utilised in other productive sectors of the economy.
- ❖ Huge amount of revenues can be raised - bearing in mind a capital stock of Rs. 1,505,689 crore.
- ❖ Even after diverting a part of the disinvestment proceeds to strengthening the PSUs - a strategy of doubtful value - large amounts will be still be available for the social sector.

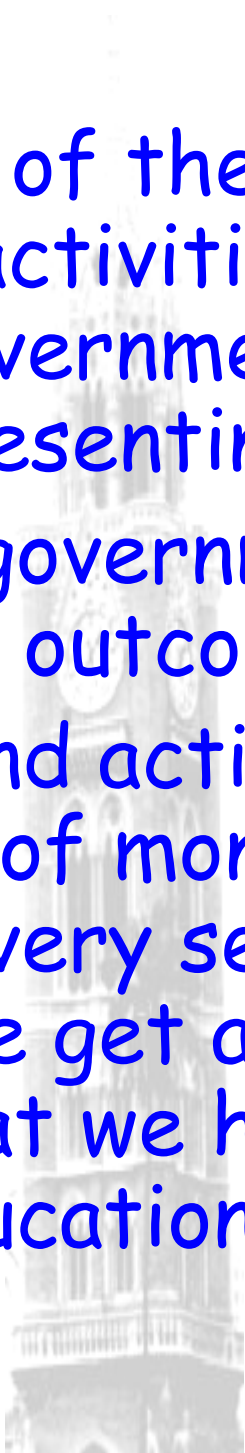
- ❖ It is not adequately recognised but administrative ability is a scarce resource and the government must use it in areas which are clearly welfare enhancing.
- ❖ I am unable to see whose welfare is served by running the following loss making enterprises.

(Rs. In Lakhs)		
Sr.No.	Name Of The Company	Pre-Tax Profit
1	Cotton Corpn. of India Ltd.	-116631
2	J & K Mineral Development Corporation Ltd	-105890
3	Orissa Drugs & Chemicals Ltd.	-65278
4	Utkal Ashok Hotel Corpn. Ltd.	-50713
5	Railtel Corporation India Ltd.	-40815
6	Manipur State Drugs & Pharmaceutical Ltd	-38539
7	North Eastern Handicrafts & Handloom Dev. Corpn	-37667
8	Mishra Dhatu Nigam Ltd.	-35433
9	Tungabhadra Steel Products Ltd.	-33878
10	Sambhar Salts Ltd.	-32996
11	Hindustan Salts Ltd.	-32298
12	Central Electronics Ltd.	-29275
13	Maharashtra Antibiotics & Pharmacoeticals Ltd.	-28773
14	Bharat Leather Corpn. Ltd.	-27636
15	Hindustan Antibiotics Ltd.	-25631

SUMMING UP

- ❖ Even though there is no obvious, deliberate, neglect of the social sector in the post-reforms period, the levels of expenditure needs to be hiked up.
- ❖ The levels suggested by the NCMP will require enormous resource mobilisation.
- ❖ No single source of revenue can possibly be adequate - specifically, it seems inconceivable that taxation alone can solve the problem.

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- ❖ A strong case can be made and, indeed, has been made for re-orienting subsidies from the undeserving to the genuinely needy.
 - ❖ Aggressive disinvestment can free resources for the social sector. A strong case needs to be made for using all these revenues for the social sector without wasting these on strengthening the public sector.
 - ❖ Given scarce administrative resources, government intervention must be tightly focused on social welfare enhancing activities.

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- ❖ The outcomes of the expenditure on social sector activities need to be monitored. Governments themselves have begun presenting outcome budgets.
 - ❖ Maharashtra government has also promised such outcome budgets.
 - ❖ Civil society and activists in the area have the task of monitoring and improving delivery services. This will ensure that we get a “louder bang for the bucks” that we hope will be spent on health and education.

THANK YOU

