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# TRENDS IN SOCIAL SECTOR EXPENDITURE IN INDIA (2005-2019)

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**ABSTRACT**

*Unraveling the instrumental aspects behind the trajectory of growth and development, this paper endeavors to conduct a time series analysis of the social sector expenditure in India for the past fifteen years. The paper examines how far has India's commitment to the social sector fared in terms of the expenditure on social services based upon indicator emphasized by UNDP's Report on Human Development. Further, by employing the direct relationship between the public provisioning of social services and an enhancement in individual capabilities, it has been justified why India needs an increase in its social sector expenditure following the economic growth trajectory of successful models of growth.*

**Keywords:** Capabilities, Education, Health, Social Allocation Ratio, Social Sector Expenditure.

## INTRODUCTION

Becoming the fifth largest economy in the world, the trajectory of Indian economic growth has improved by leaps and bounds after emerging from the shackles of imperialism. Not only has India witnessed a growth in its economy but this growth has been coupled with a growth in economic inequalities that has concentrated the fruits of development into the hands of a few. On the contrary, there exists within the Indian social fabric a major proportion of the population that still relies on the government for the public provisioning of essential services. Amidst this struggle to sustain significant proportion of population reeling under, the role of the government as a provider of instrumental social and economic services assumes paramount importance for the harmonious development of the masses. Moreover, given the amount of deprivation in the economy it then becomes the social obligation of the government to eradicate the problems of poverty, malnutrition, unemployment and illiteracy by allocating greater amount of resources. Effective social sector expenditure remains a manifestation of government's commitment towards creating a fertile ground for long run economic growth and development.

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Deployment of optimal amounts of funds in the social sectors of priority concern can facilitate an enhancement in the standard of living of the people of the country. Therefore, it assumes utmost importance to analyze how far has India traversed in achieving the goals of social sector in terms of the expenditure that is allocated to the social sector by the government. Trends in the expenditure incurred by the government on the provisioning of social services for the common good reveal how has the commitment of the government changed towards the priority sectors of the social arena over time.

## OBJECTIVE

This research paper endeavors to:

- Conduct a time series analysis of the social sector expenditure in India between 2005 to 2019 with a greater emphasis on the priority sectors of health and education;
- Gauge the commitment of the government towards development in social sector through an indicator called Social Allocation Ratio as emphasized by the UNDP;
- Justify the need for adequate expenditure on social sector through the lens of the capability approach as put forth by Amartya Sen.

## METHODOLOGY & DATA COLLECTION

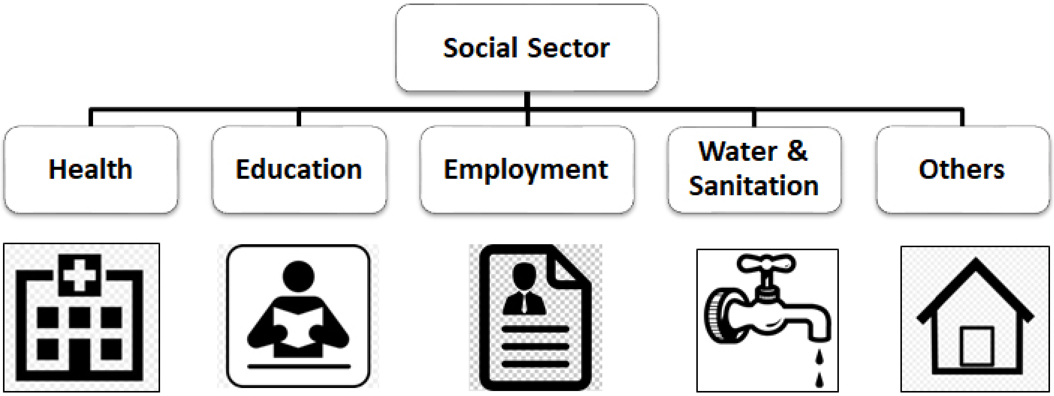
The paper mainly relies on secondary data acquired from the *Economic Survey* and the Union Budget documents of various years along with the annual publications of the RBI. The data used for analyzing the trend ranges from the year 2005 to 2019. For the years 2005 to 2017, Actuals (actual expenditure) have been used while for the year 2018 and 2019 only Revised Estimates and Budget Estimates respectively were available.Simple statistical tools such as percentage, average, graphs have been used to trace and depict the pattern for data interpretation.

## MODEL SPECIFICATION

As per the budget documents of the government,social sector expenditure has been defined as a composite of expenditures on Education, Health, Family Welfare, Water Supply and Sanitation, Housing, Urban Development, Labour and Employment, Social Security & Welfare, Nutrition, Welfare of SC, ST and OBC, Natural Calamities, Sports and Youth Services, Arts and Culture, Other Social Services, Secretariat Social Services & North Eastern Areas.

Being a harbinger of development, the social sector primarily comprises of the social and economic activities undertaken for the purpose of benefiting the society at large and can mainly be categorized as non- profit, not-for-profit, philanthropic and mission based activities that prepare favorable pre- requisites enabling the common to subserve.

In this analysis education and health has been considered as the priority sectors of the social arena owing to the far reaching positive externalities that these two major components of the social sector herald for the growth of the economy and society as a whole.




*(Source: Self-created)*

**Figure 1 : Major Components of Social Sector**

## DATA ANALYSIS

The pattern of expenditure on social services over the past fifteen years can be examined in three ways. First is to look at social sector expenditure as percentage to GDP. The second option is to look at the trends in social sector expenditure as against the total expenditure. Third way is to analyze the trends in the share of the government's expenditure earmarked for social services in absolute terms for a clearer comparison. All three possibilities have been explored in the following possible manner:

### 1. Social Sector Expenditure as a Proportion of the GDP

With the total budgeted expenditure of the government being 25.99% of the GDP in 2005-06, the expenditure on social services as a proportion of GDP was reported to be 5.49% of the GDP in the fiscal year 2005-06. Ever since that year,it began witnessing an increasing trend, augmenting from 5.57% of GDP in 2006-07 to 6.79% of the GDP in 2010-11 that can mainly be attributed to the allocation of more funds to new government initiatives and an expansion in the coverage of the existing flagship programmes. However, for the next three fiscal years from 2011-12 to 2013 -14, this growth stagnated to 6.6% of the GDP that can be a consequence of the Global Financial Crises that led economies into a lasting recession. Further the allocation decreased to 6.2% of the GDP in the year 2014-15. It is pertinent to note here that this decline in the overall allocations for the social sector in the fiscal year of 2014-15 was witnessed as the government in power slashed the social sector spending to meet their fiscal deficit targets of 3.5% of the GDP. Along with this, the government put forth that more resources were being transferred to states on the basis of the recommendations of the Fourteenth Finance Commission. However this cutback was not adequately prepared for and there were at least short term problems and funds crunch for some important schemes of social sector.Since then the figures for the same give us a glimpse of an increase in the government's commitment towards the social sector as the expenditure as proportion of GDP has only increased reaching 7.7% of GDP as per 2019-20 BE.

**Table 1: Trend in Social Sector expenditure as Percentage to GDP**

| Year | Government's Total expenditure | Expenditure on Social Services | Education | Health | Other sectors |
|---|---|---|---|---|---|
| **2005-06** | 25.99 | 5.49 | 2.61 | 1.23 | 1.65 |
| **2006-07** | 25.83 | 5.57 | 2.67 | 1.21 | 1.69 |
| **2007-08** | 26.37 | 5.91 | 2.59 | 1.27 | 2.05 |
| **2008-09** | 28.41 | 6.76 | 2.88 | 1.32 | 2.56 |
| **2009-10** | 28.59 | 6.89 | 3.04 | 1.36 | 2.49 |
| **2010-11** | 27.52 | 6.79 | 3.13 | 1.29 | 2.37 |
| **2011-12** | 27.7 | 6.6 | 3.2 | 1.3 | 2.2 |
| **2012-13** | 27.1 | 6.6 | 3.1 | 1.3 | 2.2 |
| **2013-14** | 26.7 | 6.6 | 3.1 | 1.2 | 2.3 |
| **2014-15** | 26.4 | 6.2 | 2.8 | 1.2 | 2.1 |
| **2015-16** | 24.7 | 6.6 | 2.4 | 1.3 | 2.5 |
| **2016-17** | 26.7 | 6.8 | 2.8 | 1.4 | 2.6 |
| **2017-18** | 26.4 | 6.7 | 2.8 | 1.4 | 2.4 |
| **2018-19 RE** | 26.8 | 7.6 | 3.1 | 1.5 | 3.0 |
| **2019-20 BE** | 26.9 | 7.7 | 3.1 | 1.6 | 3.0 |

*Data (Actuals) as acquired from *Economic Survey* of various years.
*Figures of 2018-19 are Revised Estimates, while that of 2019-20 are Budget Estimates.

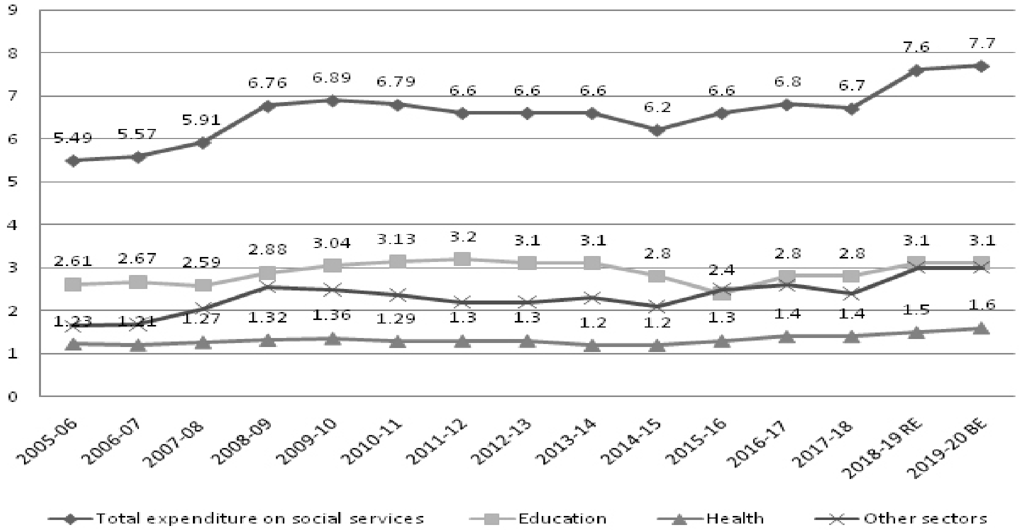
**BREAKING IT DOWN INTO EDUCATION & HEALTH**

In this analysis education and health has been considered as the priority sectors of the social arena owing to the far reaching positive externalities that these two major components of the social sector herald for the growth of the economy and society as a whole.

As a proportion of the GDP, expenditure on education has increased from 2.6% of the GDP in 2005-06 to 3.1% of the GDP in 2019-20 BE. However the growth has not been a consistent path as there were minor fluctuations in the years in between. Overall we can say that the expenditure on education as proportion of GDP has hovered in the range of 2-3% during the entire period under consideration as shown in the Table above and depicted in the graph below.

Similarly, although the expenditure on health as a proportion of GDP has increased from 1.23% in 2005-06 to 1.6% in 2019-20 BE but at a very sluggish pace. Overall we can say that there has not been any mammoth change in the expenditure on health as it has remained less than 2 per cent of the GDP during the entire period as depicted in the graph below. As suggested by many policy makers, India's healthcare spending is much below its European counterparts that spend around 6% to 11% of their GDP only on Healthcare.

Graph 1: Trends in Expenditure as Percentage of GDP



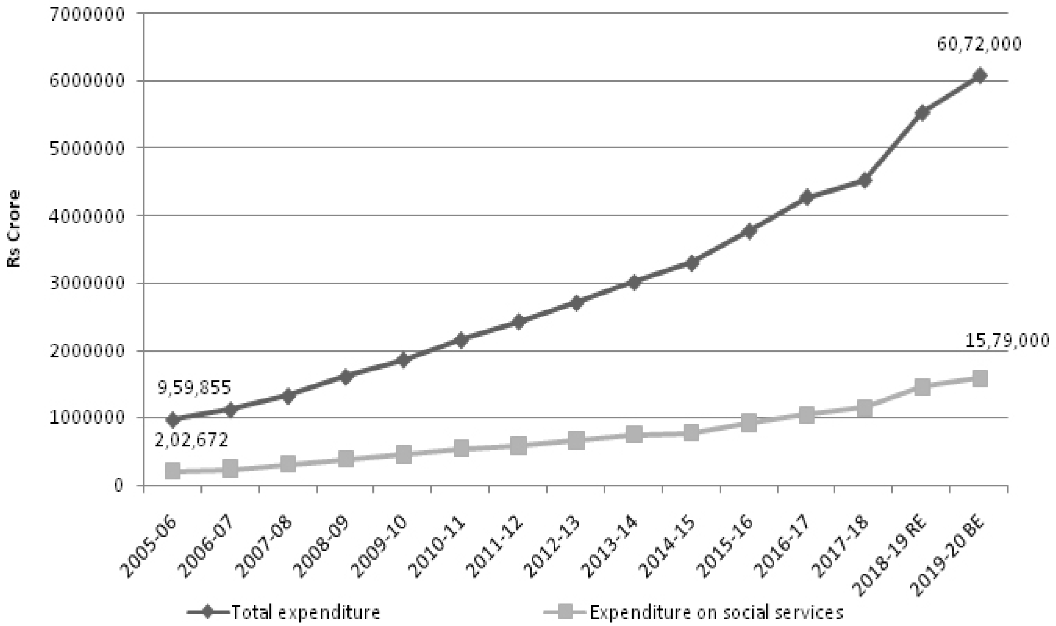

## 2. Pattern of Social Services Expenditure against Total Expenditure

Over the last fifteen years, the total expenditure by the general government has seen an eight-fold increase in absolute terms as shown in the Table 2. On the contrary, the growth of social sector expenditure against total expenditure has been quite sluggish and it has not been as proportionate as was witnessed in the increase in total expenditure.

**Table 2: Trends in Expenditure on Social Services against Total Expenditure**

| Year | Expenditure on social services (in Rs. crore) | Total expenditure (in Rs. crore) |
|---|---|---|
| **2005-06** | 2,02,672 | 9,59,855 |
| **2006-07** | 2,39,340 | 11,09,174 |
| **2007-08** | 2,94,584 | 13,16,246 |
| **2008-09** | 3,80,628 | 15,99,533 |
| **2009-10** | 4,46,382 | 18,52,119 |
| **2010-11** | 5,29,398 | 21,45,145 |
| **2011-12** | 5,80,868 | 24,21,768 |
| **2012-13** | 6,58,320 | 26,94,934 |
| **2013-14** | 7,46,391 | 30,00,299 |
| **2014-15** | 7,67,622 | 32,85,210 |
| **2015-16** | 9,15,500 | 37,60,611 |
| **2016-17** | 10,40,620 | 42,65,969 |
| **2017-18** | 11,40,000 | 45,16,000 |
| **2018-19 RE** | 14,47,000 | 55,17,000 |
| **2019-20 BE** | 15,79,000 | 60,72,000 |

Graph 2: Trends in Expenditure on Social Services against Total Expenditure




### 3. Social Allocation Ratio

The UNDP Report of 1991 chalked out an instrumental indicator that can enable us to gauge the commitment of a country's government towards development in social services termed as Social Allocation Ratio that essentially reflects the share of the government's expenditure earmarked for social services.

**Social Allocation Ratio = Expenditure on Social Services X 100**
**Total Expenditure**

**Total Expenditure**

If we attempt to tweak it in per capita terms for facilitating comparison between countries based upon this parameter, we can divide both the Expenditure on Social Services and Total expenditure by the population figure that yields

**Social Allocation Ratio = Expenditure on Social Services/Population X100**
**Total Expenditure/Population**

The population component in both numerator and denominator gets cancelled away and we again arrive at the same formula as emphasized by the UNDP Report proving that it is sustainable as a measure to facilitate comparison between different countries.

The Report further sheds light on the aspect that countries having high level of human development have an optimal level of 40% as their Social Allocation Ratio.

**Table 3: Trends in India's Social Allocation Ratio**

| Year | Social Allocation Ratio |
|---|---|
| **2005-06** | 21.11% |
| **2006-07** | 21.57% |
| **2007-08** | 22.28% |
| **2008-09** | 23.79% |
| **2009-10** | 24.10% |
| **2010-11** | 24.68% |
| **2011-12** | 24.00% |
| **2012-13** | 24.43% |
| **2013-14** | 24.88% |
| **2014-15** | 23.36% |
| **2015-16** | 23.39% |
| **2016-17** | 24.24% |
| **2017-18** | 24.89% |
| **2018-19 RE** | 26.22% |
| **2019-20 BE** | 26.00% |

Focusing on the Indian growth story, India's Social Allocation Ratio has shown an increasing trend from 21.11% in 2005-06 to 26% in 2019-20 BE. The figure has increased by around 5% during the entire period under consideration. However, the Social Allocation Ratio has never crossed the benchmark of 26%. This further gives us a sufficient understanding of the fact that why India still continues to remain a consistent low rank holder as per the Human Development Index values constructed by the UNDP that is apparently well below its peer countries such as Sri Lanka and other South- East Asian countries

## MAJOR FINDINGS OF THE ANALYSIS & KEY SUGGESTIONS

Considering the changes in the allocation of funds to the social services by the Indian government, it was observed that during the entire period under consideration, i.e., between 2005 and 2019, the social sector expenditure has risen by 6.8% (as per the absolute figures). This increase can mainly be attributed to the allocation of funds to new initiatives by the government and an expansion in the coverage of government's flagship social welfare schemes. However, the growth has been sluggish.

A trend has been observed in the budget documents that every year the initial allocations in the budget (Budget Estimates) are greater while the actual expenditure (Actuals) that is reported after a year is much lower than the initially allocated amounts. This presents before us a dismal picture arising out of the process of allocation of budget every year. Moreover, it has been observed that the decrease has been greater for the social sector schemes.

The path to an augmentation in the social sector expenditure is but a path laden with pitfalls owing to the fragility of expenditure on social services in India. There is a greater commitment of the government for the containment of its fiscal deficit to keep it within the range of 3.5% of the GDP as stipulated by the Fiscal Responsibility Budget Management Act of 2014. However, there is no constitutional regulatory framework that serves as a guiding light for the government expenditure on social services and keep it within certain prescribed limits. A major ramification of this loophole is that as and when the fiscal deficit of the government looms large, the government does a cut back on the social sector expenditure to meet their fiscal deficit targets leading to a brazen crowding out of essential expenditure on public provisioning of social services. There is a need to fill this void with an appropriate mechanism to set a minimum floor on social sector expenditure by the government. The remedy of this cyclic ailment is stringent policy imperatives that strengthens fiscal consolidation and aims to curtail the fiscal deficit and having a surplus budget that can equip the government with the ability to allocate adequate amount of funds to the social sector. A sufficiency in terms of availability of funds will leave no room for the government to resort to a cutback on social sector expenditure. This reiterates the need for fiscal consolidation as this would provide more headroom to the government for carrying out social sector expenditures during phases of slowdown in economic growth.

A close evaluation of the composition of social sector expenditure reveals that a major chunk of this expenditure falls under the head of Revenue Expenditure that is regular and recurring in nature such as the salaries of employees and regular disbursement of transfers that leaves the asset liability situation of the government unchanged. However, the Capital Expenditure that essentially leads to creation of assets or reduction of liabilities constitutes a very insignificant portion of the total social sector expenditure. Thus the government should strive for greater creation of assets for the common good.

As calculation of Human Development Index does not take into account the amount of inputs that are invested for growth in the social sector rather it focuses on evident outcomes such as life expectancy at birth, mean years of schooling and per capita income. Thus, mere allocation of funds will not improve India's HDI ranking rather it has to be coupled with improvement in the indicators of social sector that can only be achieved through greater commitment of the government. How the money allocated is being spent is also a very crucial aspect which needs to be considered. We cannot solely rely on increasing amount of social sector allocations. Rather, after the allocation of more funds, the focus should be on proper utilization of these funds for achieving the desired targets and their channelization through schemes and policies that are well implemented and allow the proposed benefits to reach the targeted beneficiaries. Therefore, greater allocation of funds towards the social sector is only a necessary condition for achieving equitable economic growth and should not be regarded as a sufficient condition for economic prosperity.

## NECESSITY OF HIGHER SOCIAL SECTOR EXPENDITURE: THE CASE OF INDIA

Viewing social sector expenditure through the lens of the capability approach of Amartya Sen, endows us with the opportunity to evidently establish a direct relationship between provisioning of imperative social services by the government and an enhancement in the capabilities to achieve higher economic growth.

As per the capability approach, an individual enjoys the advantage of leading the kind of life she values with substantive freedom that her capabilities bestow upon her. And income remains an instrumental means to enhance capabilities. While lowness of income can be the principal reason leading to deprivation of basic capabilities by creating a myriad of ramifications and exacerbating the existing forms of inefficiencies. On the contrary, endowment of adequate levels of income can serve as an essential channel for capability improvement. Enhanced capabilities and greater earning potential that are achieved due to greater access to education, healthcare and social provisioning of pivotal services can substantially improve the standard of living of the masses.

The biggest testimony to substantiate this claim remains the growth trajectory of the Indian state of Kerala. A state that was once considered to be an outlier due to its socio-cultural practices that are distinct from the rest of the country now happens to lead the country in the social indicators of education and health. This transition can only be attributed to the reinforced focus of the government on the priority sectors of health and education. In Kerala, expansion of public provisioning of basic education, health and other social services not only led to the reduction of poverty but has also facilitated the rise of Kerala in terms of Human Development Index and the standard of living of the rank & file making its growth story an ideal model that can be replicated by other states as well for facilitating the trajectory of development. Kerala's transition stands as a testimony to the fact that expenditure on social services is the best way for achieving economic growth.

## CONCLUSION

In the case of India, the Government's expenditure on social sector assumes importance on three accounts. The first being magnitude of deprivation in the country being too large to be left to the market forces alone to tackle. Secondly, the proportion of poor households utilizing Government services is higher as compared to the richer households and thirdly, to ensure clearly articulated outcomes in social sectors such as the Sustainable Development Goals (SDGs).

A growth in the income level that uplifts the standard of living remains a stepping stone for higher economic growth and investments in the social sector of education, health, employment, social security, etc. This will not only enhance the capabilities of the masses but will also bring them out of the shackles of poverty, deprivation and the vicious cycles of drudgery, facilitating their betterment through enhanced capabilities and earning potential. A well-financed social sector should remain the utmost priority of the government to prepare reinforced socio-economic foundations of a population that is enabled to reap the benefits of good health, literacy, employment, social security and better cognitive skills & an enhanced potential to pave their way towards development.

Policy imperatives of eminent economists and research scholars can be a guiding light in this pursuit. While Amartya Sen believed that the Centre needed to invest more in social infrastructure to boost productivity and consequently raise growth, on the contrary Jagdish N. Bhagwati believed that only a focus on growth could yield the resources needed for investing in the social sector. This masterpiece of economic growth and development can be painted on the canvas of time through greater commitment of the government towards the priority concerns of social sector that is reflected through the level of expenditure on them.

India being on the brink of a demographic revolution and a larger amount of young people in the productive age group, education and health assume great significance on account of their real contribution to production by ensuring rapid and inclusive growth. Therefore, in order to reap the benefits of India's growing demographic dividend, there is a need for higher public spending in the social sector, especially key areas of education, health and sanitation. The government needs to move beyond rhetoric to leverage the favorable consequences of this demographic transition

A higher spending in the social sector, particularly on education and health, is absolutely essential for inclusive and sustained growth. Improving the quality of the two key development indicators will create the requisite pressure to ensure that the high economic growth is both inclusive and sustainable. A better educated and healthy population will mean improved productivity.

Government investment in social sectors has always been an important factor in tackling social issues and facilitating the alleviation of poverty. Hence, for the greatest good, budgetary expenditure for such investment needs to be efficiently allocated and utilized.

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