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Rising Government Expenditure and the Status of Poor (A Study)

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- Mitali Tiwari*

The present paper is an attempt to analyze the trends of government expenditures on social services and then to check whether it has been able to make a dent on poverty scenario in the country or not.

Key words:- *Public Expenditure, Social Services, Poverty, Human Development, Per Capita Income.*

Budget udget and plan allocations are the most crucial documents, the allocations made on which, determine the future course of the country's development path. It is through these allocations that the intentions of the Government become most obvious. A Government spending more on the social services area gives a picture that the Government is bent upon improving the human development scenario of the country. Hence it becomes imperative to explore whether these expenditures have been able to reach the masses in the form of reduced poverty figures and increased standards of living of the masses or not. This is very essential since the funds used by the government have been generated by public itself in the form of various taxes paid by them. It thus becomes imperative to know whether the funds are properly utilized or not.

1. Introduction:

Extreme poverty involves extreme scarcity of commodities in terms of basic amenities like food, clothing, shelter, health and hygiene. Deprivation of the bare necessities for survival prevents these individuals to grow and develop well, both physically and psychologically. They also lack the economic means to develop their capabilities, for example, by becoming well educated, maintaining good health, developing their skills and potentials, and enhancing their well being by living in safe and hygienic environment. These factors always inhibit the masses at large from making use of their "fundamental freedoms" of well being and growth.

The poverty, as it exists amongst nations and within nations, is not equal in its magnitude and dimensions. There are situations wherein the individuals and families have barely enough economic and material resources for their survival. Millions of people belonging to several nations, experience absolute poverty of this type. They are barely able to arrange for sufficient economic resources and material requisites for their physical survival. This is the 'minimum needs approach' of meeting the poverty problem.

On the other hand, It is also possible for individuals or families to be categorized as poor by a society if they have insufficient economic means to afford a minimum socially acceptable standard of living .This acceptable standard is higher in wealthier nations than in poorer ones. This is the 'basic needs approach' which calls for a strategy of prioritizing primary requirements to ensure that the basic needs for survival, security from physical harm, and enabling needs of the individual, family and community are attended to. This makes it imperative for the planners and developmental experts to approach the poverty problem by keeping in mind the extent and severity of poverty so as to eradicate poverty of the region, class or nation in question.

2. The role of State:

The role of a welfare state in meeting the development targets of a country cannot be undermined. Market failure and other constraints prevent active private sector participation in major social sectors. This in turn has a negative impact on well being of the masses since they are excluded from the development process. The function of a Welfare State is to provide basic amenities of life, and right to safe and respectable living to each and every citizen of society. The planners, in free India, also envisioned the goal of establishing a socialistic pattern of society which would ensure employment opportunities, eradication of poverty etc.

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Developmental experts claim that one of the aims of the reform process is to withdraw the state from some of its economic activities, in order to step up expenditures for, and increase the state involvement in the social sector. There have been pressures on the government to reduce government expenditures and thus experts prescribe that a cut could be made in all other types of expenditures so that the pressure of this cut may not fall back upon the social sector expenditures. This is because so as to meet the Millenium Development Goals and to face the globalized era with a human face, there is a need for the Governments to carry on with their investment on social sector. Several studies done with respect to India and other countries reveal that expenditures made on social services, rural development, infrastructure development etc. create conditions conducive for real economic development of the nations and also can make a dent on massive and glaring poverty situation in the country.

Public expenditures on social services can affect the poor and women in a number of ways. The fiscal policy of the government increases the livelihoods of the individuals and their increased incomes is likely to create equitable distributive effects on overall income distribution of the economy. These changes affect standards of living directly (changes in real incomes) and indirectly (changes in growth). Secondly, public spending created incomes benefit the poor and other marginalized sections of society. Spending on primary education is more likely to generate incomes for more women (as primary school teachers). Finally, public expenditures generate transfers, in form of cash or monetary transfers (pensions, unemployment insurance) or in kind (publicly provided health, education, and infrastructure services).There have been substantial literature to reveal the rationale and effectiveness of public investment in social services so as to provide momentum to the growth process of the economy.

The social sector is defined here as what comes under 'Social Services' and 'Rural Development' in the Indian budgets. Basically this means health, education, water and sanitation, housing, anti-poverty programmes, employment programmes, etc

The provision of social services constitutes the most important means of promoting greater equality of opportunities to the disadvantaged sections of the population. However, the goals of human development must work for overall well being of the masses and as an instrument to ensure equity. The role of the government in creating an enabling environment as well as in provision of basic facilities for the benefit of the poor is crucial. Even the Supreme Court in India has widened the fundamental right to life and liberty enshrined in Article 21 of the Constitution to include the right to livelihood, the right to education and the right to a healthy environment. Hence, the role of Government spending targetted for poverty problem becomes indispensable in the path of development. This is supported by vast economic literature.

3. Literature Review:

Deshpande R.S. and Jyotishi Amalendu (2001), analysed the role of State policies, interest groups and the major steps towards poverty alleviation programmes to provide social justice. It conveys the view that the Government policies, bureaucracy and the interest groups have not depicted any well planned policy for poverty problem. The poverty ratio has dropped down from about 65% to 35% , but there has been no symmetry in the results across groups, regions and sectors, Achievements on the count of human development have also neither been impressive nor focussed.

Fan Sheggen (2004), has analyzed the trends and relationship pf government spending on infrastructure development and rural poverty alleviation. Fan et al (2000) used state level data from 1970 to 1993. The results show that additional government expenditure on roads is found to have the largest impact on poverty reduction and second largest impact on productivity growth.. Agricultural research and rural education also have large poverty reducing impacts and favourable growth returns.

Shiv Kumar A.K. (1996), reviewed India's performance on poverty reduction and the country's prospects on these fronts. He opines that access to quality health care, basic education and other essential services have to improve drastically. Showing the comparison from other developing countries on human development counts, he shows that if human poverty has to be eradicated, India must, as a priority invest in its people- in their health and education. He says that India needs to strike a balance between expansion of physical and social infrastructure. The priority has to shift to basic education, to preventive and promoting health care, to assuring basic economic security and livelihoods. Clearly, more financial resources are required.

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Weiss, John (2005), analyzed of case study on India mentions that estimation of total expenditure on poverty targeted programs in India is difficult because of the variety of schemes and the range of financing whether at central, state or district level. It is estimated that targets. It is estimated that largest targeted programs in India were about 11 % of the central government and 2% of G.D.P.

M.Govinda Rao (2000) analyzed the design of the general purpose and specific purpose transfer schemes relevant for poverty alleviation strategy. It proposes that general purpose transfers should be designed to offset fiscal disabilities of poorer regions. Also, the paper recommends that , in order to design and implement effective anti- poverty programs, in addition to general purpose transfers, it is necessary to provide specific purpose transfers. These transfers are intended to ensure that categorical equity services are provided in reserved quantities.

Fan Sheggen, Brzeska Joanne and Shields Ghada (2009), found the effect of government spending on both growth and poverty reduction in some developing countries. The paper clearly mentions that data spanning 1970-1993 shows that additional government expenditure on roads has the largest poverty reducing impact, as well as significant impact on poverty growth.

Somnathan, Rohini (2006), outlined major interventions used by Indian States to alleviate poverty.The public spending programs described are found to vary enormously in their coverage and average effectiveness across states and have, in general, performed badly in terms of targeting poor household.

Fan Sheggen (2007), presented a synthesis of the links between government spending on rural education and economic growth and poverty reduction in India and China. The results show that government spending on education had the largest impact on poverty reduction.

Jha Shikha and Ramaswamy Bharat (2011), examined the percolation of food subsidy expenditures to the poor. The findings are that the participation rates are low and the households whether poor or not do not receive most of the expenditures on food subsidy. The waste in food subsidy systems provides a buffer by which coverage can be stepped up substantially without commensurate increase in public expenditures.

Ghosh Jayati (2010) , examined the nature of poverty reduction process in India and China. It finds that more than economic growth itself, it is the type of namely inequalities, non-agricultural employment growth etc. which determines the extent of poverty. Government policies and those of effects of globalization determine the different outcomes.

Mehta, Asha Kapur and Shah Amita (2001), examined the current state of knowledge about chronic poverty in India. Chronic poverty is viewed in terms of severity, extended duration and multidimensional deprivation. The paper also attempts to demand that government spending in the name of poor should be accountable and transparent.

Dhamija Nidhi and Bhide Shashanka (2010), examined the incidence and dynamics of poverty over a period of three decades from 1970 to the end of 1990s. The study corroborates the view that the period of 1990s experienced a slower decline in poverty compared to the previous decade, although the incidence of poverty declined in the latter period.

Vera Wilhelm and Ignacio Fiestas (2005), explored how the composition of public spending and the manner in which the resources are spent may have affected the ability of poor people to connect to growth in the 1990s.The paper finds that the overall spending levels (as a % of GDP and per capita income) have declined over the analyzed period. While outcomes improved overall, there was no clear link to spending patterns.

Fan Sheggen, Zheng Xraobe and Rao Neetha (2004), examined the effects of different types of government expenditure on agricultural growth and rural poverty in Uganda. This study reveals that whereas government spending on agricultural research and on rural roads had substantial marginal impact on rural poverty reduction, but spending on health did not show a large impact on growth in agricultural productivity or a reduction in poverty.

Albena D. Oduro (2001), explored the scenario of social services available in Ghana. It , therefore, aims to propose a poverty reduction strategy for Ghana.It proposes that the concern should not only be with the quantum of public expenditure but also with the component or structure of such spending. Even though rising public expenditure may have a negative effect on economic growth, it is recognized that it may also have a

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"crowding" effect that encourages and indeed facilitates the expansion of private sector investment and therefore, growth.

Jung Suhyun, Seong Hoon Cho and Roland K Roberts (2009) , analyzed temporal and spatial variations in the effects of education , health and hospital, parks and recreation and public welfare expenditures on alleviating poverty in Southern Western States. While the decreasing marginal effects were the trend in overall area, they increased between 1990 and 2000 between some regions. The results suggest that parks and recreation expenditure has been the single most effective government expenditure category over time. Also the marginal effects of government expenditure have weakened over time.

Mehmood Rashid and Sadiq Sara (2010), examined the long run as well as the short run relationship between the fiscal deficits and poverty in Pakistan. The results reveal a negative relationship between government expenditure and poverty based on time series data from 1976 to 2010.

Andrew McKay ((2002) , discussed issues that arise in trying to assess the impact of fiscal policies on poverty in a country. It says that benefit incidence analysis represents an important conceptual and practical limitations, in particular as a guide to policy. Important as household survey data are for assessing the distributional impact of fiscal policy, they alone are insufficient to understand why the pattern as it is, and what might be done about it.

4. The Public Expenditure on Social Services:

It is obvious by vast economic literature that expenditure done by the government, especially on social services, is an important determinant of the likely changes in the poverty scenario of the country. Budgets and plan allocations are the most crucial documents, the allocations made on which, determine the future course of the country's development path. It is through these allocations that the intentions of the Government become most obvious. A Government spending more on the social services area gives a picture that the Government is bent upon improving the human development scenario of the country. Hence it is very important to know what have been the trends of the Government expenditures that are made on this front. However, the assessment of the likely indicators of human development would actually show whether these expenditures are efficiently managed and utilized or not.

The present paper is an attempt to analyze the trends of government expenditures on social services and then to check whether it has been able to make a dent on poverty scenario in the country or not.

In India, the relevant budgetary expenditures at the Central and State levels can be broadly categorized into two parts: first, the social and economic expenditures which have the broader objective of expanding social opportunities and improving the standards of life in the form of provisioning education, health, and nutritional standards of the masses at large: and secondly the expenditures that are made directly for poverty alleviation programmes.. Apart from the expenditures done on these areas, the expenditures on urban and rural development, SC, ST, OBC and other marginalized sections of society and those on infrastructural development are also determinants of the well being on the masses.

5. The Poverty Scenario:

The official poverty lines are anchored to a fixed commodity basket corresponding to the poverty line (Rs.49.09 per person per month at 1973-74 prices for rural areas and Rs.56.64 for urban areas). The suggested rural commodity basket by the Expert Group contained 2400 kcal per capita per day in rural areas and the urban food basket had 2100 kcal per capita per day in 1973-4.

Thus the estimates of poverty are based on the methodology provided by the Planning Commission for measuring poverty.

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Table 1: Economic Growth, Per Capita Income and Poverty Ratios

(1973-74 to 2004-05)

Indicators	1973-74	1983-84	1993-94	2004-05
Economic growth	3.3	5.6	6.7	8.0
Per capita income	4763	5555	7433	12000
Poverty ratio	54.9	44.5	36.0	27.5

Poverty ratio indicates headcount ratio which measures the proportion of poor below the national poverty line.

Source: Economic Survey for various years, Radhakrishna and Roy (2005), Planning Commission (2006) and Planning Commission (2007) for Head Count Poverty Ratio.

The proportion of population below the poverty line declined rather slowly from 54.9 per cent in 1973-74 to 36 per cent in 1993-94 according to Planning Commission estimates. In absolute terms this translates into a virtually stagnant figure of 321.3 million poor in 1973èk74 and 320.4 million in 1993èk94 (Planning Commission, 1997). What is worth the pain is that the prevalence of poverty remained high even among those employed, pointing to considerable underemployment in the Indian economy specially in agriculture and the poor quality of employment secured.

The prevalence of poverty has also been higher among the socially disadvantaged sections such as the scheduled castes (SC) and scheduled tribes (ST). It has been found, as an evidence taken from various studies conducted that the rate of decline in poverty in these sections was critically low as compared to rate of decline in other sections of society. This shows a pitiable picture of the poverty scenario wherein the marginalized sections of society seem to have been left of the reform process. This is a lopsided growth of the economy and thus claims of official authorities that the public expenditure programs have made an impact on poverty seem to be futile. This is against our vision of the development process as also enshrined in the Directive Principles of State Policies which calls for development of the weaker sections of the society to be the primary goal of any development policy.

6. Discussion:

The Government has been spending continuously since the beginning of the planning era and moreover these expenditures have risen substantially over the period of the planned era. The problem is to explore whether these expenditures have been able to reach the masses in the form of reduced poverty figures and increased standards of living of the masses or not. This is very essential since the funds used by the government have been generated by public itself in the form of various taxes paid by them. It thus becomes imperative to know whether the funds are properly utilized or not.

The expenditures made by the government on the social services has been taken as the overall determinant of the poverty scenario, since the combined expenditures incurred on education, health, safe drinking water, housing etc. make an all round impact on the poverty problem of the country.

Per Capita Income has been used as one of the indicator to assess the income situations of the masses. Although there have been objections to take per capita income as an indicator of welfare, however, it can be taken as one of the indicators of development since the UNDP has also been using it as one of the components to assess Human Development Index for the nations.

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Result 1
Table-2 Plan Outlays by Centre, States & UTs (1951-2012)

Five Year Plans	Expenditure on SOCIAL SERVICE (RS IN crores)	As a % of total allocations
1st(1951-56)	459	na
2nd (1956-61)	855	na
3rd(1961-66)	1493	na
4th(1969-74)	2986	na
5th(1974-78)	6833	na
6th(1980-85)	15916.6	14.5
7th(1985-90	34959.7	16
Annual Plan (1990-91)	9606.6	16.5
Annual Plan (1991-92)	10298.7	15.9
8th(1992-97)	79011.9	18.2
9 th(1997-02)	183273	21.3
10th(2002-07)	347391	22.8
11th(2007-12)	1102327 (Projected)	30.2

A. Objectives:
The objectives of this paper are as follows:
1. To analyze the trends in combined Plan Expenditures on Social Services by the Centre, State and UTs.
2. To assess the impact of the Plan expenditures on Social Services during the plan period on the Per Capita income of people in India.

B. Hypotheses:
The hypotheses framed to test the above objectives are as follows:
1. The combined expenditures of Centre, States and UTs on the social services in India during the plan period 1951-2012 have increased manifold.
2. Increasing the levels of expenditure made on social services increases the per capita income of the nation.

Result 1
Table-2 Plan Outlays by Centre, States & UTs
(1951-2012)

*na-not available
(Source: Economic Surveys of various years)

The table shows that the plan allocations on social services have increased manifold in absolute terms. From the figure of Rs 459 crores in the first plan, the allocations have increased to Rs 1102327crores in the 11th plan. In percentage terms too, the social service allocations as a percentage of total allocations have increased. It has increased from 14.5 % in the 6th Plan to 30.2% in the 11th plan. The increased percentages of allocations made on the social services depict the likely concerns of the government for improving the human development scenario of the country.

Result 2

The expenditures made by Centre , State and UTs in the five year plans and the per capita incomes for the subsequent years have been shown in the Table 3.

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Table-3
Relation between Expenditure on Social Services and Per capita

PLANS	SOCIAL SERVICE (RS IN crores)	PCI at constant prices(base yr 1993-94)
1 ST	459	3,909
2 ND	855	4,242
3 RD	1493	4,570
4 TH	2986	4,927
5TH	6833	5,162
6TH	15916.6	5,711
7TH	34959.7	6,538
AP	9606.6	7,345
AP	10298.7	7,251
8 TH	79011.9	8,170
9 TH	183273	15723
10th	347391	85548

Source: Economic Survey and NSS data

A simple linear regression has been used for the plan period ranging 1951-2012 having expenditure on social services as independent variable and per capita income as the dependent variable. The regression results show R Square as 0.42.The P value of the t statistics of the independent variable (Expenditure on social services) is 4.55838E-07.This proves that the independent variable is statistically significant at 1% level. Thus, the impact of social services expenditure on the per capita income of the country is significant. It can thus be concluded that the expenditures incurred by the Central and State Governments have been able to make a dent on poverty .This is an encouraging result since a lot of public debate goes to assess the effectiveness of public expenditures. Hence it can be safely concluded that the public money has not all gone wasted and at least some impact has been created on the per capita average income figures of the masses.

Table- 4 : Percentage of Population below Poverty Line (1970-71 to 2001-2007

Years	% of population below poverty line
1970-71	52.3
1974	54.9
1977-78	51.3
1979-80	48.4
1983	44.48
1987-88	38.86
1989-90	34.28
1990-91	35.11
1992	40.7
1993-94	35.97
1994-95	36.98
1995-96	36.08
1997	43.01
1999-2000	28.6
2007	19.34

Source-CSO

Table 3 shows the percentage of population below poverty line in India during the period 1970-71 to 2007.It can be seen from the table that during the period 1970-71 to 1977-78, poverty has prevailed to the extent of more than 51%, particularly in 1974 when

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it was 54.9 %.It is obvious that the country has suffered extreme poverty during this period. If it is to be recollected, 1970s was the time of Green Revolution and planners were very enthusiastic of the success of the Green Revolution and its likely positive effect on the income generation of the rural poor and consequent reduction of the poverty levels. However, the scenario which is manifest in the poverty ratios does not support the hypothesis of the planners. It can be inferred that whatever momentum was given to the rural incomes by the Green Revolution, it did not 'trickle down' to the masses. It makes it obvious that the benefits were lopped off by the rich famers only.

7. Conclusion:

Taking into account the vast economic literature in the field and the results of the present study, we can infer that the rising levels of the income of the per capita income of the people has been positively associated with social sector expenditures which in turn has been correlated with a declining incidence of poverty in India during the plan period. However the trickle down effect does not seem to show concrete results. It points to the necessity of targeted public expenditures programme to be developed for those living in destitute poverty. If all the Governments. Whether Centre or States, make a focused approach for those below poverty line by investing more on the miserably poor, then the results of these expenditures can be more encouraging .This calls for a comprehensive poverty alleviation program specially targeting the destitute poor. It is only then that the goals of "Inclusive Growth" can be effectively achieved in its spirit.

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