Cracks in Budgetary Policies towards the Social Sectors

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The union budget for 2014-15 offers few changes in terms of policy priorities from the United Progressive Alliance government's interim budget for 2014-15, and it fails to recognise the cracks in the country's budgetary policies towards the social sectors, which have been worsening over time.

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The first union budget of the new National Democratic Alliance (NDA) government offers few changes in terms of policy priorities from the interim budget for 2014-15 presented in February by the United Progressive Alliance (UPA) government. It fails to recognise the cracks in the country's budgetary policies towards the social sectors, which have been worsening over time. The new government got only a little over a month to prepare the budget, which usually takes up to five months in every financial year. Hence, it might not be very reasonable to expect significant changes in this union budget, given that the earlier UPA government and the present NDA government seem to have the same approach towards fiscal policy in general and the social sectors in particular.

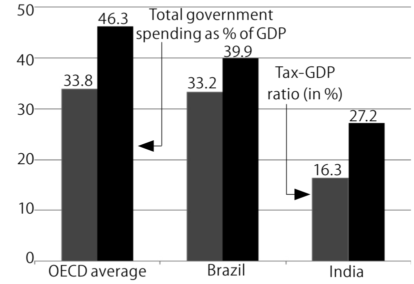
Limited Fiscal Policy Space

Compared to the size of the India's economy, the total magnitude of government spending is much lower than that in most developed countries and in some developing countries such as Brazil and South Africa. As shown in Figure 1 (p 41), for the year 2010 (fiscal year 2010-11 for India), total government spending as a proportion of the country's gross domestic product (GDP) was 27.2% in India, while it was a much higher 39.9% in Brazil and 46.3% in the Organisation for Economic Co-operation and Development (OECD) countries on an average. When the quantum of government spending is higher (as a proportion of total spending by all three actors in the economy – firms, households, and government), the government gets a larger fiscal space. This allows the government to carry out substantive public provisioning of essential services (such as education, health, drinking water, and sanitation) and other development interventions for the people.

In India's budgetary spending of roughly 27% of GDP, almost half is controlled directly by the union government, while the remaining is carried out by state governments. With the growing dominance of the centre in the fiscal architecture of the country over the last one and a half decades, the policy priorities in the union budget have tended to strongly influence those in the state budgets as well (for a discussion on this, see Das and Mitra 2013).

The UPA II government followed a conservative fiscal policy primarily due to its inability to step up the tax-GDP ratio. The NDA government seems to have adopted the same trajectory – the total size of the union budget in 2014-15 was projected to be 13.7% of GDP in the interim budget, and this budget

Figure 1: A Comparison of Tax-GDP Ratio and Total Government Spending as Percentage of GDP in India, Brazil, and OECD, 2010



Source: Centre for Budget and Governance Accountability (CBGA), 2014.

Table 1: Union Budget Allocations for Selected Ministries (Rs crore, except for those mentioned as percentage of GDP)

	2012-13 (Actuals)	2013-14 (BE)	2013-14 (RE)	2014-15 (Interim Budget)	2014-15 (BE)
Total union budget	14,10,367	16,65,297	15,90,434	17,63,214	17,94,892
As percentage of GDP	13.9	14.7	14.0	13.7	13.9
Budget for the ministry of					
Defence	2,30,642.1	2,53,346.5	2,53,788.0	2,79,202.9	2,85,202.9
Consumer Affairs, Food and Public Distribution	86,676.5	91,591.4	93,339.9	1,15,949.0	1,15,952.6
Rural Development	53,181.0	80,250.5	61,863.9	82,261.5	83,852.5
Human Resource Development	66,054.7	79,451.0	74,621.3	81,441.1	82,771.1
Petroleum and Natural Gas	97,423.0	65,188.4	85,566.1	63,543.0	63,543.0
Health and Family Welfare	27,885.2	37,330.0	30,847.3	38,737.8	39,237.8
Road Transport and Highways	22,536.6	31,302.1	30,338.5	31,257.2	34,345.2
Agriculture	24,254.4	29,772.8	26,070.9	29,962.9	31,062.9
Women and Child Development	17,035.7	20,440.0	18,285.6	21,093.9	21,193.9
Urban Development	8,465.0	10,363.7	9,548.2	19,589.5	20,009.5
Drinking Water and Sanitation	12,968.6	15,265.7	12,006.2	15,266.8	15,266.8
Social Justice and Empowerment	4,939.7	6,725.3	5,723.3	6,845.6	6,845.6
Housing and Urban Poverty Alleviation*	933.2	1,468.0	1,207.7	6,008.6	6,008.6
Tribal Affairs	3,072.6	4,295.9	3,896.0	4,397.9	4,498.0
Minority Affairs	2,174.3	3,,531.0	3,130.8	3,734.0	3,734.0

* Figures for 2014-15 (interim budget) and 2014-15 (BE) for the Ministry of Housing and Urban Poverty Alleviation include the budget allocations for two components of the Jawaharlal Nehru National Urban Renewal Mission ("Basic Services for Urban Poor" and "Integrated Housing and Slum Development Programme"), which were earlier reported under the budget of the Ministry of Finance.
Source: Compiled by the CBGA from the union budget, various years.

proposes only a slightly higher figure of 13.9% of GDP.

Mobilisation of Resources

On the resources side, the additional receipts for the union government to finance the incremental spending in the current fiscal year (compared to the spending proposed in the interim budget) are going to come mainly from higher non-tax revenue. This budget projects a total receipt of Rs 2.12 lakh crore from non-tax revenue, while the figure for this head projected in the interim budget was Rs 1.8 lakh crore. As for taxation proposals, contrary to what was being predicted by the mainstream media, the new government has not withdrawn the retrospective amendment to the Income Tax Act (the one that has been the cause of contention between the tax authorities and Vodafone) or the surcharge on income tax for the super-rich. Nor has it postponed the introduction of the General Anti-Avoidance Rules (GAAR) in the country. However, putting in place a "stable and predictable tax regime" to spur growth and ensure an investor-friendly environment was shared in the 2014-15 budget speech as one of the top priorities of the government.

In this context, it needs to be reiterated that the overall magnitude of public resources available to the government in India has been inadequate in comparison to several other countries, mainly owing to the low amount of tax revenue collected in the country. At around 17% of GDP, India's tax-GDP ratio constrains the fiscal policy space available to the government for providing resources for essential services and social protection for the poor and underprivileged. We should note that the budget for 2014-15 does not have any strong proposal for reducing the significant amount of tax revenue forgone due to a plethora of exemptions in the central tax system. The budget speech of the new finance minister did make substantive references to the proposed transition to a goods and services tax and a direct taxes code. However, though these proposed reforms will bring in stability in the tax laws as demanded by private investors, they may not help the government in stepping up the country's tax-GDP ratio.

Expenditure Priorities

In the budget for 2014-15, the allocations for most of the central government ministries have been retained at the same level as those proposed in the interim budget for 2014-15 or increased by a small extent. Table 1 presents the figures for the budgets of selected central ministries from 2012-13 to 2014-15 (budget estimate).

The total size of the union budget in 2014-15 was projected in the interim budget to be Rs 17.63 lakh crore, while this budget proposes a slightly higher figure of Rs 17.94 lakh crore. One possible way to interpret the expenditure priorities of the new government is to figure out how this additional allocation of Rs 31,000 crore has been distributed among the various ministries.

We find that the highest incremental allocation has gone to the Ministry of Defence (Rs 6,000 crore), followed by the Ministry of Road Transport and Highways (roughly Rs 3,000 crore). The ministries of Rural Development, Human Resource Development, and Agriculture have got incremental outlays of around Rs 1,600 crore, Rs 1,300 crore, and Rs 1,100 crore, respectively. A few other ministries such as Urban Development, Health and Family Welfare, Youth Affairs and Sports, and New and Renewable Energy have been given additional budgets of roughly Rs 500 crore each. The ministries of Women and Child Development, and Tribal Affairs have got incremental allocations of only Rs 100 crore each. Thus, defence and road transport and highways seem to have got the highest priority in the limited budgetary manoeuvrability exercised by the new government in the short time it had for preparing the budget for 2014-15.

The limited fiscal policy space available to the government and the limited priority given to the social sectors in the country's overall budgetary spending have resulted in a low magnitude of public spending on the social sectors. As stated at the outset, it appears that the new government is yet to recognise the cracks in the country's budgetary policies towards the social sectors, which have been worsening over time.

Gaps in Policies

Since the adoption of pro-market economic reforms in the early 1990s, the proponents of a proactive fiscal policy for the country (which would necessarily require stepping up the magnitude of government spending compared to the size of the economy) have gradually been becoming a minority. The perspective on fiscal policy in India, which has been propagated over the last few years, is that ineffective use of budgetary resources is the biggest challenge in this domain, and not the inadequacy of budgetary resources.

It is true that the available budgetary resources are not being utilised very well in many sectors and some resources remain unspent. However, studies by the Centre for Budget and Governance Accountability (CBGA and UNICEF India 2011) have shown that the problem of underutilisation of budgetary resources is mainly in social sector schemes, and not in the long term, institutionalised, public provisioning of essential services. These studies have also shown that staff shortages in different areas (programme management, finance and accounts, and front-line service provision) are among the principal factors for the underutilisation of budgetary resources in various schemes, a problem rooted in the inadequacy of resources with state governments (and their unwillingness) to fill up staff vacancies.

Table 2 presents some evidence on the extent of staff shortages in state government departments taking care of the social sectors. The shortage of staff in the health and education sectors has been acknowledged in the *Economic Survey for 2013-14*, but the budget proposals have not paid any attention to this serious problem plaguing the social sectors in many states.

The total budgetary spending on social sectors in India was a meagre 5.3% of GDP in 2004-05. Though it has increased over the last decade, the figure still hovers around 7% of GDP (Khan and Das 2014). In this 7% of GDP spent on the social sectors, the direct contribution from the union budget (that is, excluding the direct spending from state budgets) has been 2% of GDP at best. This level of public spending on the social sectors is significantly lower than those in developed countries and many developing countries. The poor quality of infrastructure in these sectors, the shortage of qualified and trained human resources for delivery of services, the shortage of human resources for the management of programmes, and the low levels of unit costs for providing various services in these sectors are all manifestations of the deficiency of public resources.

Table 2: Shortages of Staff in Madhya Pradesh and Odisha in Selected Sectors (2012, in %)

	Selected Sectors (State Government Departments)	Shortages of Staff in 2012 as against Sanctioned Strength
Madhya Pradesh*	Health: Gynaecologists	54.2
	Health: Paediatricians	43.6
	Health: Anaesthetists	48.1
	Water and sanitation: rural drinking water	47.0
Odisha**	Education	25.7
	Integrated child development services: Anganwadi workers and helpers	8.6
	Integrated child development services: Others (supervisory staff)	28.0

Sources: * Compiled from Vikas Samvad (2012), Status of Maternal and Child Health Services in Madhya Pradesh: A Situation Analysis, Bhopal, Madhya Pradesh; ** Calculated from Government of Odisha (2012), FRBM Special Statement, State Budget of Odisha for 2012-13 and information provided at www.icds.gov.in

Restructuring Central Schemes

Some of the changes recommended by the B K Chaturvedi Committee on restructuring centrally-sponsored schemes were incorporated by the UPA government in the interim budget for 2014-15. These changes have been retained in the budget presented by the new government. As a result, starting from 2014-15, the contentious practice of central scheme funds bypassing state budgets (for schemes such as the Sarva Shiksha Abhiyan (SSA), National Rural Health Mission (NRHM), and Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS)) will be discontinued, and the funds will be transferred to state finance departments. This step can be expected to improve transparency and internal accountability in the implementation of central schemes in the states.

However, just as the interim budget did, the main budget for 2014-15 has adopted a new and rather baffling practice of reporting the budget allocations for many central schemes (particularly the schemes with large allocations) under a head called "Assistance for State and Union Territory (UT) Plans" in the budget documents of central ministries. Based on this change in reporting, a drastic increase in the quantum of the central assistance (from Rs 1.11 lakh crore in 2013-14 RE to Rs 3.3 lakh crore in 2014-15 BE) has been shown in the budget documents. However, in practice, in most of these central schemes now reported under "Assistance for State and UT Plans", there will only be a 10% flexible fund component for the states and the remaining 90% of the funds will still be tied to the scheme guidelines set by the nodal central ministries. Hence, this artificially inflated figure for "Central Assistance for State and UT Plans" needs to be corrected.

In conclusion, it has to be said that the new government needs to recognise the deep-rooted gaps in the country's budgetary policies towards the social sectors, which have been worsening over time, and take strong policy measures to remedy these soon.

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