What Does Budget 2010 Imply for the Social Sector?

The Union Budget for 2010-11 does pay some attention to a few important areas in the social sector like women and child development, development of minorities, rural housing and technical education, but the budget’s overall allocations and proposals for the critical social services fall far short of expectations and are in keeping with the fiscal conservatism that has gripped the United Progressive Alliance government in its second tenure.

India’s development deficits in the social sector are well known and so is the fact that the country’s public expenditure in the social sector has been low compared to that in the developed countries and several developing countries.

The budgets of the first United Progressive Alliance (UPA) government at the centre, during 2004-05 to 2008-09, had reflected a noticeable improvement in the priority accorded to the social sector, and it was expected that the UPA-II government would continue this welcome trend. However, the Union Budget for 2010-11 reveals that a sense of urgency for addressing the deep-rooted problems in the country’s social sector is perhaps missing in the policy agenda of the present government.

The social sector refers to areas like education, health, water and sanitation, and nutrition, etc, which directly influence human development, and, in the budget documents, these are referred to as “social services”. The assessment of the implications of Budget 2010 for the social sector needs to be placed in a larger context, taking into account a number of important developments in the sphere of public policies in the country. The present article is an attempt in that direction.

In its previous two budgets (2008-09 and 2009-10), the union government had taken an expansionary fiscal stance to deal with the challenges emerging from the global financial crisis. However, with a clear indication of the economy reviving, the government seems to have made up its mind now to revert to the path of fiscal conservatism and pursue the deficit reduction targets prescribed in the Fiscal Responsibility and Budget Management (FRBM) Act. And, instead of taking strong measures for expanding the tax revenue base of the country, the approach taken by the government for reducing its borrowing in 2010-11 is one of expenditure compression. As shown in Table 1, the government’s total expenditure as a proportion of the gross domestic product (GDP) is projected to fall from 16.6% in 2009-10 (revised estimates or RE) to 16% in 2010-11 (budget estimates or BE). In tandem with the compression of public expenditure, the fiscal deficit of the union government is projected to fall from 6.7% of GDP in 2009-10 (RE) to 5.5% of GDP in 2010-11 (BE).
2010-11 (BE), and in revenue deficit is estimated at 4.0% of GDP in 2010-11 (BE), significantly lower than the 5.3% figure for 2009-10 (RE).

This overarching emphasis on expenditure compression is clearly reflected in the allocations proposed in Budget 2010 for the social sector. Table 2 shows the trend in total expenditure on social services from 2004-05 onwards. We find that expenditure on social services as a percentage of total expenditure in the budget had risen from around 8% in 2004-05 to 13% in 2008-09, which translated into the total Union Budget expenditure on social services rising from 1.2% of GDP in 2004-05 to 2.1% of GDP in 2008-09. Although this level of increase was nowhere close to what had been promised by the UPA for social sectors in the National Common Minimum Programme (NCMP) of 2004, it was still a welcome trend. In the RE for 2009-10 there has been a very marginal increase to 2.2% of GDP, where it is projected to stagnate. As a proportion of total expenditure, from the budget, however, it is expected to rise to 14%.

The increase in the Union Budget expenditure on social services during 2007-08 and 2008-09 seems somewhat impressive; however, we must take into account the fact that state governments continue to bear a significant share of the country’s overall public expenditure on social services and the total public expenditure on social sectors in the country does not reflect any such impressive rise. Table 3 presents the trend in total public expenditure on social services (i.e., the combined expenditure of the centre and states on social services) since 2004-05.

As shown in Table 3, the overall fiscal policy space available to the government shows a small expansion during 2004-05 to 2008-09, as the magnitude of total public expenditure in the country (i.e., the combined expenditure of the centre and states) had been checked at less than 25.5% of GDP during 2004-05 to 2006-07 and it hovered around 26% of GDP in 2008-09 (BE). The priority accorded to social services within the total public expenditure has not been high: the combined expenditure of the centre and states on social services has increased gradually from 5.5% of GDP in 2004-05 to 6.6% of GDP in 2008-09 (BE).

The combined expenditure of the centre and the states on “Education, Health and Family Welfare, and Water Supply and Sanitation” has been raised from 3.8% of GDP in 2004-05 to 4.3% of GDP in 2008-09 (BE). There can be little doubt about the inadequacy of this overall magnitude of public spending in the country on three of the important social sectors. The D S Kothari Commission had recommended way back in 1966 that total public spending on education in India should be raised to the level of 6% of the gross national product (GNP) by 1986. Subsequently, many political parties have reiterated this as a commitment in their election manifesto, and the UPA too had promised in the NCMP in 2004 that total public spending on education would be raised to the level of 6% of GDP. Likewise, following the recommendations of the World Health Organisation (WHO) for the developing countries, the UPA had made a commitment in the NCMP in 2004 that total public spending on health in the country would be raised to the level of 2 to 3% of GDP, which was also reiterated in the Eleventh Five-Year Plan. However, the reality is that even in 2008-09 (BE), the total public spending in the country on Education, Health and Water and Sanitation combined was as low as 4.3% of GDP.

### Finance Commission Recommendations

As regards the policy direction suggested by the Thirteenth Finance Commission (TFC), both the report of the commission (tabled in Parliament on 25 February this year) and Budget 2010 clearly indicate that the next five years would witness growing efforts by the union government towards elimination/reduction of deficits through compression of public expenditure. Consequently, any significant boost to public expenditure in the social sector in...
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centre to the states had accounted for 33.5% of the aggregate expenditure of states in 2007-08 (RE), which had fallen to 30% in 2009-10 (RE). The quantum of GDT from the centre to the states indicated in Budget 2010 is unlikely to reverse this trend of a decline in the share of GDT in aggregate expenditure from state budgets.

Thus, the recommendations of the TFC do not seem to suggest any noticeable expansion of the fiscal policy space available to the state governments over the next five years. On the other hand, the recommendations pertaining to the fiscal health of the states strongly advocate a conservative fiscal policy for all states; which should pursue elimination/reduction of deficits in the state budgets over the next five years. Hence, the possibility of any significant increase in the state budget expenditure on social services seems equally unlikely in the near future. In other words, the present state of affairs in the social sectors in our country, most of which is resource-starved and struggling to cope with the emerging challenges, is likely to remain unchanged for the next few years.

Mid-Term Appraisal

With only two years remaining in the Eleventh Five-Year Plan period (2007-08 to 2011-12), the Planning Commission has been involved over the last few months in a mid-term appraisal. Hence, it was expected that Budget 2010 would reflect the Planning Commission's suggestions for course correction over the remaining two years starting from 2010-11. However, with regard to the social sectors, Budget 2010 does not indicate any such course-correction for the last two years of the Eleventh Plan. Rather, it reflects the lack of seriousness on the part of the government to implement the Planning Commission's recommendations pertaining to allocation of funds for some of the important programmes/schemes in the social sectors.

CALL FOR RESEARCH PROPOSALS

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Submission Guidelines: Applicants are invited to submit (i) Curriculum Vitae (ii) Details requested in the fellowship form (iii) Research proposal not exceeding 4000 words and (iv) Sample of writing by the applicant. The last date of application is 30th April, 2010.

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Chandragupta Marg, Chanakyapuri,
New Delhi - 110 021, India
Table 4: Outlays Recommended for Eleventh Plan vs Union Budget Allocations Made in the First Four Years of the Plan

<table>
<thead>
<tr>
<th>Programme/Scheme</th>
<th>Outlay Recommended For Eleventh Plan (in Rs. Crore)</th>
<th>Plan Allocation Made in the Union Budget (in Rs. crore)</th>
<th>Total Union Budget Allocation Made during 2007-08 to 2010-11 as % of Outlay Recommended for Eleventh Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2007-08 (RE)</td>
<td>2008-09 (RE)</td>
<td>2009-10 (RE)</td>
</tr>
<tr>
<td>Sarva Shiksha Abhiyan (SSA)</td>
<td>71,000</td>
<td>13,171</td>
<td>13,100</td>
</tr>
<tr>
<td>Mid-Day Meal (MDM)</td>
<td>48,000</td>
<td>6,678</td>
<td>8,000</td>
</tr>
<tr>
<td>Teacher Training</td>
<td>4,000</td>
<td>312</td>
<td>307</td>
</tr>
<tr>
<td>Rashtriya Madhyamik Shiksha Abhiyan (RMSA)</td>
<td>22,620</td>
<td>2,762</td>
<td>5,865</td>
</tr>
<tr>
<td>University Grants Commission (UGC)</td>
<td>25,012</td>
<td>1,633</td>
<td>2,762</td>
</tr>
<tr>
<td>Technical Education*</td>
<td>23,654</td>
<td>1,000</td>
<td>2,885</td>
</tr>
<tr>
<td>National Rural Health Mission (NRHM)</td>
<td>89,478</td>
<td>11,930</td>
<td>13,378</td>
</tr>
<tr>
<td>District Hospitals*</td>
<td>2,780</td>
<td>68</td>
<td>160</td>
</tr>
<tr>
<td>Human resources for health *</td>
<td>4,000</td>
<td>312</td>
<td>307</td>
</tr>
<tr>
<td>Integrated Child Development Services (ICDS)</td>
<td>42,400</td>
<td>4,857</td>
<td>5,665</td>
</tr>
</tbody>
</table>

* Figures for Union Budget allocations for these schemes do not include the lump sum provision of funds for North Eastern Region and Sikkim, if any.

Source: Compiled by CBGA from Eleventh Five-Year Plan, Planning Commission; and Union Budget, various years.

In the current discourse on planning and government budgeting in the country, there are very few benchmarks for assessing the adequacy of public spending on development programmes/schemes in the social sectors. In this context, the outlays recommended by the Planning Commission for the Eleventh Five-Year Plan period (2007-08 to 2011-12) could be treated as some such benchmarks, even though the quality parameters underlying these benchmarks would hardly be satisfactory.

With just one more Union Budget left in the Eleventh Plan period (i.e., the Budget for 2011-12), around 80% of the outlays recommended by the Planning Commission should have been made for the Plan programmes/schemes from 2007-08 to 2010-11. However, as shown in Table 4, the total provisioning in the four Union Budgets from 2007-08 to 2010-11 has been only 12% of the recommended outlay for the Rashtriya Madhyamik Shiksha Abhiyan (RMSA), 36% for teacher training, 46% for the University Grants Commission and 52% for technical education; although the Sarva Shiksha Abhiyan (SSA) and the Mid-Day Meal (MDM) schemes have fared better with 77% and 66% respectively.

The mismatch between the outlays recommended by the Planning Commission and the allocations made in the Union Budget (2007-08 to 2010-11) seems more pronounced in case of some of the important schemes in health sector. In the National Rural Health Mission (NRHM), the total Plan allocation made in budgets for 2007-08 to 2010-11 stands at just 57.5% of the quantum of funds recommended by the Planning Commission for the entire Eleventh Plan period. Two of the new schemes launched in the Eleventh Plan, District Hospitals and Human Resources for Health, deal with some of the most acute problems confronting the health sector in our country. However, the total Plan allocations made in the Union Budgets for 2007-08 to 2010-11 for these new schemes have been as low as 10%. Likewise, for the Integrated Child Development Services (ICDS) scheme, which addresses the development needs of children in the 0 to 6 years age group, the total allocations made in the Budgets for 2007-08 to 2010-11 stand at 65% of the quantum of funds recommended by the Planning Commission for the entire Eleventh Plan period.

Growing Complacency

Budget 2010 does pay some attention to a few of the important sectors/issues like women and child development, development of minorities, rural housing, technical education, etc. However, the budget’s overall allocations and proposals for the social sector fall far short of expectations.

(The expenditure on education is discussed in detail the accompanying article by J. Tilak on education in this special issue.)

The country’s total public spending on health, which has hovered around 1% of GDP, is among the lowest in the world; while the out of pocket expenditure on health in our country is among the highest. Against this backdrop, there can be little doubt about the fact that the union government’s allocation on health (i.e., the budget for the Ministry of Health and Family Welfare), which shows a negligible increase from 0.35% of GDP in 2009-10 (RE) to 0.36% of GDP in 2010-11 (BE), is grossly inadequate (Table 5). Even after Budget 2010, the government is far short of the NCP target of raising total public spending on health in the country to 2 to 3% of GDP.

The government has proposed to include in the Rashtriya Swasthya Bima Yojana (RSBY) all those National Rural Employment Guarantee Scheme (NREGS) beneficiaries who have worked (in the scheme) for at least 15 days in the last fiscal year. While this is a welcome development, there are several concerns pertaining to the implementation of RSBY (relating mainly to the role of private health insurance companies and the private healthcare institutions involved in RSBY), which need to be addressed. The allocation for National Disease Control Programmes has been reduced from Rs 1,063 crore in 2009-10 (BE) to Rs 1,050 crore in 2010-11 (BE), which is disturbing given that a number of diseases covered under the scheme have witnessed increased prevalence in the recent past. The overall allocation for Medical Education and Training has been reduced from Rs 3,256 crore in 2009-10...
With regard to the social sector, it can be argued that most of the Plan schemes of the union government continue to follow a welfarist approach and provide low-cost, ad hoc interventions. An entitlements-based approach towards public provisioning in the social sectors would require a significant strengthening of the regular and sustained government interventions in these sectors, which would inevitably require a much higher priority to be given to the social sectors in union and state budgets than what is still prevailing. However, a sense of urgency for addressing the challenges in the social sectors does not yet seem to be on the policy agenda of the union government.

Finally, while making a case for a significant increase in the quantum of public expenditure on the social sector in the country, one needs to address (at least tangentially) the usual argument put forward by the policymakers pertaining to the question of resources available to the government. In this context, we need to pay attention to the problem of a huge amount of tax revenue foregone due to the exemptions/deductions/incentives in the central government tax system.

The union finance minister had recognised in last year’s budget speech that India’s tax base continues to be low compared to other countries, mainly due to a plethora of exemptions/deductions in the central government tax system. However, the government has not taken any corrective measures in this regard even in the Union Budget for 2010-11. As shown in Table 6, the total magnitude of tax revenue foregone due to exemptions/incentives/deductions in the central government tax system has been estimated (by the finance ministry itself) to rise from Rs 4.14 lakh crore in 2008-09 to Rs 5.02 lakh crore in 2009-10. A liberal estimate of the amount of additional tax revenue which could have been collected by the union government in 2009-10, if all exemptions/incentives/deductions (both in direct and indirect taxes) had been eliminated, stands at a staggering 8.1% of GDP. Not all kinds of tax exemptions/incentives/deductions can be eliminated; however, there could be a strong case for removing those exemptions which are benefiting mainly the privileged sections of population.

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**Table 6: Tax Revenue Forgone in the Central Government Tax System due to Tax Exemptions/Incentives/Deductions**

<table>
<thead>
<tr>
<th>Items</th>
<th>Revenue Forgone in 2008-09 (in Rs Crore)</th>
<th>Revenue Forgone as % of Aggregate Tax Collection in 2008-09</th>
<th>Revenue Forgone in 2009-10 (in Rs Crore)</th>
<th>Revenue Forgone as % of Aggregate Tax Collection in 2009-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate income tax</td>
<td>66,901</td>
<td>11.08</td>
<td>79,554</td>
<td>12.60</td>
</tr>
<tr>
<td>Personal income tax</td>
<td>37,570</td>
<td>6.22</td>
<td>40,929</td>
<td>6.48</td>
</tr>
<tr>
<td>Excise duty</td>
<td>1,28,293</td>
<td>21.25</td>
<td>1,70,765</td>
<td>27.04</td>
</tr>
<tr>
<td>Customs duty</td>
<td>2,25,752</td>
<td>37.59</td>
<td>2,40,021</td>
<td>39.43</td>
</tr>
<tr>
<td>Total</td>
<td>4,36,516</td>
<td>75.95</td>
<td>5,40,269</td>
<td>85.56</td>
</tr>
<tr>
<td>Less (export credit-related)</td>
<td>44,417</td>
<td>7.36</td>
<td>57,970</td>
<td>6.01</td>
</tr>
<tr>
<td>Grand Total</td>
<td>4,14,099</td>
<td>68.6</td>
<td>5,02,299</td>
<td>79.5</td>
</tr>
</tbody>
</table>

(1) As per the Receipts Budget in the Union Budget, “the estimates and projections are intended to indicate the potential revenue gain that would be realised by removing exemptions, deductions, weighted deductions and affected by removal of such measures ....(And the cost of each tax concession is determined separately, assuming that all other tax provisions remain unchanged). (2) Aggregate Tax Collection refers to the aggregate of net direct and indirect tax collected by the central government.

Source: Receipts Budget, Union Budget 2010-11.

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