

Balancing goals, commitments and means



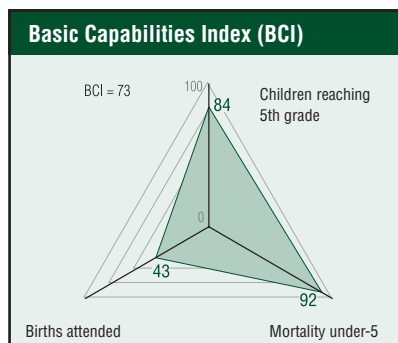
The Indian Government is faced with a delicate balancing act as it strives to reconcile its commitment to a neo-liberal economic policy of fiscal prudence with ambitious commitments to social development. This challenge is further complicated by the leakages and corruption that act as a drain on already insufficient social expenditure.

Social Watch India
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The challenge currently facing the Government is to maintain a balance between the changes in the two paradigms that have taken shape in the political and economic policy realms since the turn of the 1980s. The dilemma of two conflicting paradigms makes it necessary to reconcile the resulting contradictions with regard to needs, commitments, political will and finances. Under these pulls and pressures, the Government is performing its own balancing act to deal with this emerging dilemma, leaving the citizens clueless about the outcomes of their demands and expectations.

In the political field, resurgent political formations and repeated social upheavals are forcing new expectations and demands on the Government. Several of these political groups have gained influence by supporting the demands behind these upheavals and promoting the “social justice” ideology. Nevertheless, their impact is limited by the fact that their political support comes almost exclusively from the most deprived social sectors of Indian society. At the same time, however, socio-economic realities like rampant poverty, multi-layered deprivations, and the emancipation of marginalized social groups and women cannot be ignored in any policy framework.

In terms of the economic development paradigm, the challenge lies in the Government’s commitment to the neo-liberal framework and to a pattern of economic and institutional planning that ostensibly emphasizes economic prudence, an approach that often conflicts with and contradicts its political and social policy commitments. Policy makers must keep in mind the “welfarist” considerations which are both politically and socially advisable, while simultaneously designing economic policy in line with the considerations of new economic compulsions, both national and global. Governments both at the national and state levels are perpetually caught in this paradigmatic dilemma. Added to this is an overall problem of “institutional decline”, where institutions of governance have been caught in unprecedented atrophy and are unable to carry out the programmes to which they have committed themselves. Many of these governmental commitments, both sociopolitical and economic, remain “half achieved” at best and unfulfilled at worst.

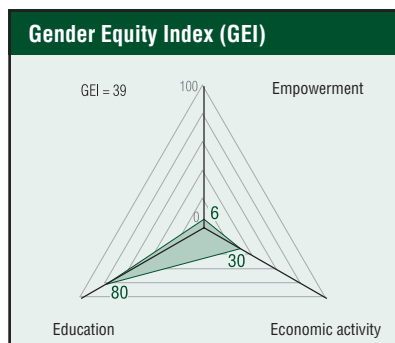


Therefore, while the Government has shown its commitment to social development through initiatives like the Common Minimum Programme¹ and its Five-Year Plans, as well as its adoption of the Millennium Development Goals (MDGs), on the one hand, it remains subject to its commitments to the prevailing global economic paradigm, on the other. This deepens the predicament of the common citizen, who is caught between these conflicts. To be fair, the Government is increasingly taking steps to follow a participatory model when it comes to decision making and implementation. But how effective has this participation really been? Has it sufficiently impacted on financial policy instruments, like budgetary allocations for social development programmes?

In the light of the dilemma outlined above, it is imperative to explore the following questions: Are the Government’s social commitments being reflected in the budgetary allocations of recent years? Do the governmental institutions have the capacity to deliver on these commitments? Are the institutions effective enough to carry the programmes to the target groups? What is the extent of corruption, leakages of public funds and inaction on the part of functionaries?

Analysis of the annual budget

While all-around development, including economic development, remains the overall goal of the Indian State, social development and equitable distribu-



tion remain priority objectives, at least on paper. An overview of the Government’s stated commitments is provided by the Common Minimum Programme and the Tenth Five-Year Plan, which visibly coincide with the MDGs. Obviously, these commitments must be matched by proper and effective means to achieve them. They should not only be backed by the required financial allocations, but also an effective institutional infrastructure. A closer look at the Government’s annual budget demonstrates its commitments, on the one hand, and its changing priorities, on the other. The budget is also indicative of the direction in which policies are progressing.

The Fiscal Responsibility and Budget Management Act of 2005-2006 was aimed at a one-to-one revenue-expenditure relationship. In other words, if the Government’s expectations of revenue are not realized, which is often the case, there would be a curtailing of expenditures, the major brunt of which is borne by the social sector.

While the 2005-2006 budget raised the grants provided as aid to the state governments, it also signalled an end to central government loans to the states for the implementation of their annual plans. This meant that the states were obliged to raise INR 29,003 crores² (USD 6.47 billion) from the market. It also resulted in the decline of the central government’s direct assistance to the states and the union territories from INR 54,858 crores (USD 12.24 billion) revised estimates for 2004-2005 to INR 33,112 crores (USD 7.39 billion) budget estimates for 2005-2006. This trend is disturbing, as it will directly hit the poorest, most backward states.

¹ The Common Minimum Programme is the policy agenda adopted by the Government in May 2004, and places heavy emphasis on addressing the needs of the country’s poor, particularly in rural areas.

² A crore is a unit in the Indian numbering system and is equal to 10 million.

TABLE 1

Social sector expenditure by central and state governments				
YEARS	EXPENDITURE ON SOCIAL SECTORS BY THE CENTRAL GOVERNMENT (INR CRORE)	COMBINED TOTAL EXPENDITURE (CENTRAL+STATE GOVERNMENTS) (INR CRORE)	EXPENDITURE ON SOCIAL SECTORS BY THE CENTRAL GOVERNMENT AS A PROPORTION OF COMBINED TOTAL EXPENDITURE (%)	SOCIAL SECTOR SPENDING AS A PROPORTION OF COMBINED TOTAL EXPENDITURE (CENTRAL+STATES) (%)
2000-2001	18,115.34	591,300	3.06	22.3
2001-2002	20,881.46	644,700	3.24	21.4
2002-2003	22,726.63	704,900	3.22	20.6
2003-2004	25,458.83	796,400	3.20	19.7
2004-2005*	30,625.44	904,500	3.39	20.7
2005-2006**	34,656.82	979,800	3.54	20.9

*revised estimates **budget estimates

Source: Economic Survey 2005-2006, Government of India.

The rising expenditure on defence as a proportion of total expenditure has been another worrying trend, in view of the substantially higher expenditure needed for social services.

The effect of this pattern of allotment is immediately reflected in the expenditure on rural employment and poverty alleviation schemes, which has remained stagnant and even declined during the period 1995-2001. The Food for Work Programme, for instance, was allocated a paltry INR 1,818 crores (USD 405.75 million), which was increased to INR 5,400 crores (USD 1.21 billion) in 2005-2006, while the Finance Minister himself has admitted that the programme would cost another INR 5,600 crores (USD 1.25 billion) to fully implement. The Sampoorna Gramin Rozgar Yojna and Swarnajayanti Gram Swarozgar Yojna, programmes to create wage employment opportunities and provide food security for rural households below the poverty line, were subjected to significantly reduced allocations in the most recent budget. With regard to rural infrastructure, the Government made a commitment in its Tenth Five-Year Plan to connect all of the country's villages with all-weather roads. However, while INR 1,600 crores (USD 357.09 million) was proposed as an additional budgetary support for this initia-

tive, it would actually cost roughly INR 70,000 crores (USD 15.62 billion) to fully implement, according to the Government's own admission.

Agriculture, which supports 57% of India's population and contributes 21% of its gross domestic product (GDP), has been plagued by stagnation in the last few years. This can be largely attributed to the decline in public investment in the agricultural sector, which fell from 1.92% of GDP in 1990-1991 to 1.31% in 2003-2004.

The Government's goal to include socially marginalized groups in the development process is not reflected in its expenditure. The overall budgetary allocation for marginalized groups as a proportion of total budgetary allocations has declined from 0.62% in 1998-1999 to 0.30% in 2004-2005. Even after the negligible increase of 0.43% in 2005-2006, the current rate of spending remains well below the 1998-1999 figure.

Gender budgeting, contained in a separate statement on gender sensitization regarding budgetary allocation, was introduced for the first time in the budget of 2000-2001. In 2005-2006, the total allocation for gender budgeting was INR 14,379 crores (USD 3.21 billion), which in proportion to total expenditure is only 2.8%.

TABLE 2

Union (central) government expenditure on social services and defence services				
YEARS	EXPENDITURE ON SOCIAL SERVICES AS A PROPORTION OF TOTAL EXPENDITURE (%)	EXPENDITURE ON DEFENCE AS A PROPORTION OF TOTAL EXPENDITURE (%)	EXPENDITURE ON SOCIAL SERVICES AS A PROPORTION OF GDP (%)	EXPENDITURE ON DEFENCE AS A PROPORTION OF GDP (%)
1996-1997	4.83	14.68	0.71	2.16
1997-1998	5.15	15.20	0.79	2.32
1998-1999	5.28	14.28	0.85	2.29
1999-2000	5.82	15.80	0.90	2.43
2000-2001	5.56	15.24	0.87	2.37
2001-2002	5.76	14.98	0.92	2.39
2002-2003	5.50	13.47	0.92	2.26
2003-2004	5.40	12.74	0.92	2.18
2004-2005	6.32	15.74	1.00	2.51
2005-2006*	7.58	16.54	1.09	2.38
2006-2007**	7.69	16.27	1.10	2.32

*revised estimates **budget estimates

Source: Economic Survey 2005-2006, Government of India.

Leakages and corruption

To make matters worse, even the insufficient funds allocated for social services and development are not fully put to this use. Former Prime Minister Rajiv Gandhi himself once acknowledged that only 15% of the finances allocated for welfare schemes reached their target groups, while the remaining 85% were absorbed by administration costs, leakages and corruption. This was confirmed by later studies on the Public Distribution System and poverty alleviation, which found that only 20% of the food ration items meant for the poor through this channel actually reached them. Of the total funding for rural housing schemes, between 25% and 40% is appropriated by middlemen, while only 20% of government spending on food subsidies reaches the poor, and the rest is either wasted or goes to the middlemen. And these are just a few examples of the widespread leakages and misappropriation of government funds (Gupta, 2004).

According to the 2005 Transparency International Corruption Perceptions Index, India scored 2.9 on a scale from 10 (highly clean) to 0 (highly corrupt). Meanwhile, a 2005 report by Transparency International India estimates that common citizens pay bribes of INR 21,068 crores (USD 4.70 billion) a year while availing the 11 public services covered in the study, which include the police, the judiciary (lower courts), land administration, government hospitals, electricity and the Public Distribution System ration programme. As many as 62% of citizens have had first-hand experience in paying a bribe or "using a contact" to get a job done in a public office, while three-fourths said they believed that the level of corruption in public services had increased during the previous year (between 2004 and 2005).

It has been repeatedly emphasized by research studies, the media and public opinion that the web of corruption encompasses not only government officials all along the hierarchy, but politicians at every level as well. A 2006 report released by India's national Social Watch coalition revealed that nearly 25% of members of the lower house of Parliament (Lok Sabha) have criminal records. Numerous central and state government ministers have repeatedly faced charges of corruption of different types. The most pessimistic aspect of this depressing scenario is that average citizens come to be convinced that the "high and mighty" will always escape unscathed from these acts of corruption. This sense of acquiescence rings a disturbing bell for good governance and for the health of the polity. ■

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