

PUBLIC EXPENDITURE

Abysmal differences

There are big differences in the absolute amounts per capita that governments in different countries spend on health and education. In the underdeveloped countries a smaller proportion of the national budget is allocated to these areas and often there is more private expenditure than public, so resources do not fully reach those who have the greatest difficulty in accessing these services. To improve their situation, these countries ought to be able to manage their public indebtedness in a way that does not compromise their pursuit of national development objectives.

Social Watch Research Team¹

Selected indicators:

- Public expenditure on health (% of GDP)
- Public expenditure on education (% of GDP)
- Foreign debt service (% of GNI)
- Military expenditure (% of GDP)

Public expenditure is the value of the goods and services bought by the State and its agencies. An analysis of the distribution of public expenditure can shed light on the priorities that governments have in responding to their different obligations.

Public expenditure for social sectors has to compete against other sectors for the resources available in a country's budget. This expenditure has to ensure that the people's economic, social and cultural rights, and the government's legal obligations laid down in a variety of international human rights agreements, are honoured. Budgets are mechanisms to allocate public resources, so they are key instruments for ensuring that these rights are not violated. In a democratic State the budget should be an expression of the will of the people operating through political parties and participative institutions.

The four indicators selected for this study have been used to evaluate the share of the national budget that goes on health and education (social welfare) on the one hand and military expenditure and debt servicing on the other, since the latter can be seen to limit a State's capacity to deal adequately with the former.

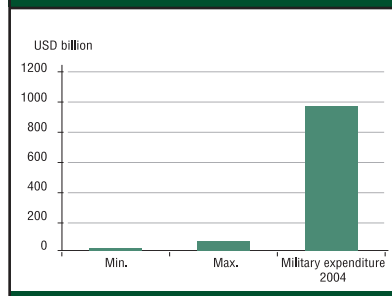
A useful approach to make a comparative analysis of the way States allocate their expenditure is to consider the figures for each sector as a proportion of total Gross Domestic Product (GDP), which is the total monetary value of the goods and services produced by a country in a given period. This approach makes it possible to compare rich and poor countries in spite of the vast differences in the scale of their economies and the absolute amounts they allocate to social expenditure.

Health expenditure per capita is a paradigm example of these inequalities, not only between different countries but also within the same country. The world average for expenditure on health is less than USD 500 per capita, but in 2003, for example, the average in countries belonging to the Organization for Economic Cooperation and Development (OECD) was USD 2,307. The country that spends most is the United States, with an average of USD 5,635 per capita, which is much more than the figure for European nations like Switzerland or Norway (USD 3,800), and very much more than countries like Spain (USD 1,640). At the other end of the scale there are regions where expenditure on health is only a twentieth of the world average, like sub-Saharan Africa (less than USD 29 per capita per year) and Southern Asia (barely USD 21).

There are also shocking inequalities when it comes to expenditure on education. The industri-

The evolution of public expenditure is directly linked to all of a government's social goals. First, because the country's development possibilities, and particularly the future of the most vulnerable groups of citizens in each society, will depend to a large extent on the allocations that are implemented in the budget. When governments signed the International Covenant on Economic, Social and Cultural Rights, one of the commitments they made was to allocate the maximum possible resources to guaranteeing that the citizens of their countries would be able to enjoy the full exercise of all the dimensions of human rights. But besides this, countries have to be able to manage their public debt in such a way that this does not compromise their national development objectives. Millennium Development Goal 8 involves a commitment to reducing foreign indebtedness and making payment more flexible, so the international community, and the creditor countries and the multilateral banks in particular, are under an obligation to negotiate conditions that will bring about a real improvement in the way debtor countries are able to manage their resources. ■

CHART 1. Expenditure needed to reach health MDG



alized countries contain less than one fifth of the world's population but they enjoy 80% of total world spending on education. Southern Asia has 25% of the world's population but benefits from only 4% of the total, and sub-Saharan Africa has 10% of the world's population, including a third of the children on the planet, but benefits from a mere 1% of total expenditure on education. The world average is USD 630 per capita per year, but while mean expenditure in the OECD countries comes to nearly USD 4,636 per child in primary or secondary education, in the African countries it is only USD 49, and in Southern Asia only USD 38.

These are blatant inequalities in the absolute amounts spent on the welfare services a person enjoys just because he or she happens to have been born in a rich or a poor country, but to make matters worse, in the poor countries a lesser proportion of the budget is spent on providing these services.

In the OECD countries average total (public and private) expenditure on health comes to 8.6% of GDP, and in the United States the figure is no less than 15% of GDP (public expenditure alone amounts to 6.8%), but in sub-Saharan Africa and Southern Asia total spending in this sector is less than 5% of GDP. However, the real gap is much wider than that since, in the poorest countries, private expenditure on health accounts for a higher proportion of total expenditure, and on average public spending on these services comes to barely 2% of GDP. In most poor countries private expenditure exceeds public spending, so most of the resources invested do not reach the people who have most difficulty in accessing these services. This phenomenon also occurs within rich countries where a large proportion of the services are privately

¹ The members of the Social Watch Research Team are listed on the credits at the start of this book.

provided. For example, according to the World Health Organization, the United States comes 37th of the list for public health provision, behind countries like Morocco (which is 29th, with only USD 186 in expenditure), Spain (seventh) or France (first). In fact the United States ranks just two places higher than Cuba (which spends USD 236). One of the reasons for this low ranking is that in the United States, the country that spends most, there are more than 40 million people who have no health coverage at all.

Another aspect of the situation is that social expenditure in itself does not guarantee that the conditions of life of the people in a country will improve. Social policies and the ways in which the budget is implemented can also have a bearing on how much of an impact this expenditure has on the population's quality of life.

According to the World Bank, the additional foreign aid needed to reach the MDGs in health would amount to just somewhere between USD 25 billion and USD 70 billion per year. However in 2004 alone total military expenditure in the world was USD 976 billion, which was 11% more than in the previous year. The main cause of this rise was increased spending by the United States on the war in Iraq. The 31 highest-income countries in the world are responsible for 75% of total global military expenditure, and the United States alone accounts for 50%.² But these nations have enormous incomes so military expenditure comes to only a relatively small part of their GDP, and this means that these countries do not show up prominently in relative indicators like military spending as a percentage of GDP or of Gross National Income (GNI). But there are other comparisons that reveal absurdities in the real situation, like the fact that these countries allocate ten times more to the military sector than to official development aid.³

Another obstacle to allocating resources to development in general and raising spending on basic social welfare services in particular is that many countries have to service considerable foreign debts. Even the multilateral bank has acknowledged that the weight of these payments constitutes a serious obstacle to growth and economic stability in a large number of countries. In 1996

the World Bank and the International Monetary Fund undertook the Heavily Indebted Poor Countries (HIPC) Initiative as a first general attempt to eliminate unsustainable debt among the poorest and most indebted countries in the world.⁴ According to recent declarations by the World Bank, in July 2006 work began on processing some debt cancellations that were announced in July 2005 by the Group of Eight (G8 – the seven most industrialized countries plus Russia).

Chart 2 shows the performance of countries as regards public expenditure according to their rating on the Basic Capabilities Index (BCI). It can be seen that the countries that rate better in the use of public expenditure are in better positions according to this index.

Table 1 shows that the countries with the greatest deficiencies (according to the BCI) are also those that allocate the lowest proportion of their national budget to health and education.

CHART 2. Final public expenditure position by BCI

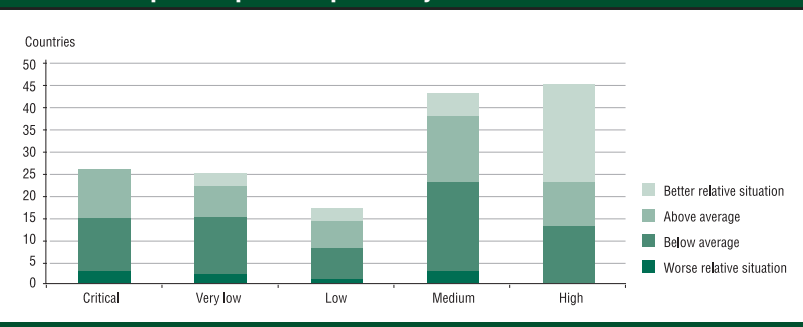


TABLE 1. Public expenditure indicators of countries according to their BCI level

BCI 2006		PUBLIC EXPENDITURE (% GNI 2003-2004)			
		HEALTH	EDUCATION	DEBT SERVICE	MILITARY EXPENDITURE
Critical	Average	2.1	3.6	3.3	3.4
	Number of countries	26	24	26	25
Very low	Average	2.6	4	4.5	2.6
	Number of countries	26	19	24	22
Low	Average	3.4	4.9	5.1	2.1
	Number of countries	17	15	15	14
Medium	Average	3.5	4.8	7.5	2.4
	Number of countries	46	40	38	32
High	Average	5.6	5.6	9	2.2
	Number of countries	45	44	15	42

TABLE 2. Public expenditure indicators of countries by region

REGIONS	PUBLIC EXPENDITURE (% GNI 2003-2004)			
	HEALTH	EDUCATION	DEBT SERVICE	MILITARY EXPENDITURE
East Asia & Pacific	4.2	5.5	4.9	1.8
Europe	5.7	5.3	8.4	1.7
Central Asia	2.3	3.4	8.0	2.6
Latin America & Caribbean	3.5	4.6	7.6	1.3
Middle East & North Africa	3.1	5.5	5.6	5.0
South Asia	2.0	4.0	2.9	2.4
Sub-Saharan Africa	2.4	4.0	3.9	3.0
North America	6.8	5.5	-	2.5

2 Stockholm International Peace Research Institute (2004). *SIPRI Yearbook 2004. Armaments, Disarmament and International Security*. Oxford University Press. Available at: <editors.sipri.se/pubs/yb04/aboutyb.html>.

3 *Ibid.*

4 The International Development Association and the International Monetary Fund (1999). "Heavily Indebted Poor Countries (HIPC) Initiative. Perspectives on the Current Framework and Options for Change". Prepared by the Staffs of the World Bank and IMF. Approved by Masood Ahmed and Jack Boorman. Available at: <www.imf.org/external/np/hipc/options/options.pdf>.

When it comes to debt servicing, the countries that rank medium and high on the BCI are most affected, with averages of over 7.5%. It is noteworthy that these countries do not qualify for the Heavily Indebted Poor Countries (HIPC) initiative.

Table 2 shows that average social expenditure (health plus education) is around 8.5% of GDP, and military expenditure comes to 2.5% of GDP. But it is obvious that behind these averages there are wide variations in what different countries spend. In the countries in the better situation on the BCI, the averages for education and health are three times higher than those for the countries in the worse situation. This table shows that the countries in the better relative situation (33) have a public expenditure structure in which education and health are given considerable weight (an average of 13.6% of GDP). These countries spend an average of USD 9 on these services for every USD 1 that goes to the military budget. Furthermore, in this group of countries the average weight of debt servicing is 2.8% of GNI, which is significantly less than in the rest of the countries. At the other end of the scale, the countries in the worse situation (11) spend an average of 4.3% of GNI on education and health, which is not much more than they allocate to military expenditure (3.7%). Another negative aspect is that a sizeable chunk of GNI (14.4%) goes on servicing the foreign debt.

A geographical analysis of performance in public expenditure shows that Central Asia is the region with the most countries below average (8 of the 9 countries in that region). In Asia and Africa

The reduction in the burden of foreign debt servicing is noticeable in... (% of GNI)		
	1990	2004
Congo, Rep. of	22.9	10.7
Jordan	16.5	6.0
Jamaica	15.9	9.9
Algeria	14.7	7.1
Côte d'Ivoire	13.7	3.7
Honduras	13.7	4.7
Mauritania	13.5	3.5
Nigeria	13.0	4.0
Syria	9.9	1.4
Kenya	9.6	2.3
Trinidad and Tobago	9.6	3.4
Costa Rica	9.2	3.8

CHART 3. Current situation of public expenditure by regions

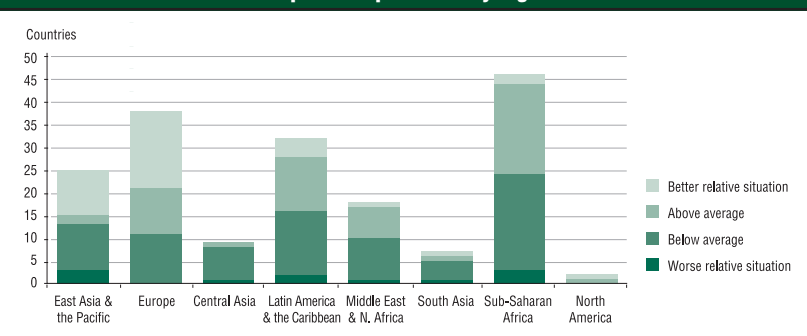


TABLE 3. Current situation by evolution of public expenditure

CURRENT SITUATION	SIGNIFICANT REGRESSION	SLIGHT REGRESSION	STAGNATION	SLIGHT PROGRESS	SIGNIFICANT PROGRESS	TOTAL
Countries in worse situation	0	4	6	1	0	11
Countries below average	4	14	45	13	0	76
Countries above average	0	9	23	18	4	54
Countries in better situation	1	1	18	13	3	36
Total	5	28	92	45	7	177

TABLE 4. Averages by indicator of countries in better and worse relative situation in public expenditure (2003-2004)

CURRENT SITUATION		HEALTH (% OF GDP)	EDUCATION (% OF GDP)	FOREIGN DEBT SERVICE (% OF GNI)	MILITARY EXPENDITURE (% OF GDP)
Countries in worse situation	Average	1.8	2.7	14.4	3.7
	Number of countries	11	11	9	10
Countries in better situation	Average	6.4	7.2	2.8	1.5
	Number of countries	36	33	10	26
Total of countries	Average	3.7	4.8	5.8	2.5
	Number of countries	187	159	133	151

the proportion of countries below the average is also very high. We should note, however, that the situation varies depending on which indicator is studied. The countries in the worse situation in terms of public expenditure on basic social services are in Central and Southern Asia and sub-Saharan Africa, where averages are below 2.5% of GNI in health and around 4% in education. Relative military expenditure, on the other hand, is highest in the Middle East and North Africa, at 5% of GNI. The regions in which average debt servicing as a percentage of GNI is highest are Europe (8.6%), Central Asia (8%) and Latin America (7.6%).

The evolution of performance in public expenditure between 1990 and the early years of the 21st century shows that, of the 177 countries for which data are available, only 4% (7 countries) have made significant progress and 25% have made slight progress. There was no change in half the countries, and in 18.6% of them the proportion of budget allocations going to social services fell. ■