CHAPTER I

CONCEPTUAL FRAMEWORK
After six decades of India’s independence and being a republic nation, we are credited to substantial achievements. We are recognized as the citizens of a ‘responsible nation’ among international community. Our economy of a trillion dollars has transformed from agrarian to the fastest developing economy of tertiary sector. Having second largest population of this planet, we have the potential to become economic an power-house. But it cannot be realized until we successfully meet the challenges before the nation. Highest number of the world’s poor, illiterate and under-nourished people is sheltered here. World’s third highest HIV infected persons and one-fifth TB patients inhabit here. One out of every nineteen children born dies before his first birthday. More than half of women are anemic and maternal mortality is also very high at 212. Almost 20 percent of global maternal deaths occur in India. 330 lakh people get impoverished every year due to high out-of-pocket expenditure on health.

The burning question before the nation is why a shameful health and educational backwardness is perpetuating though we are free from the clutches of exploitative capitalist and imperial powers. Policy makers have woken up very late from their deep slumber and realize that a lopsided growth policy would not automatically translate into human development. Human development is a very comprehensive phenomenon that aims at enhancing the entitlements of the people to lead a better life. It includes, apart from educational attainment, good heath without which the enjoyment of a better life becomes meaningless. In this perspective, this study concentrates on the health aspect of human development with respect to public spending. Public spending is inevitable for developing countries like India where more than one third of the population is living below the poverty line and another large proportion is

‘Health… is a fundamental human right and the attainment of the highest possible level of health is most important worldwide social goal.’

-Alma Ata Declaration, 1978
not able to bear the costly private health services and facilities. Health outcomes are very poor in the international perspective and there are wide disparities prevalent in health facility and outcomes at all levels in the country-state, rural/urban, sex and class etc. Health as a vital public good and a basic human right urgently requires government involvement to correct the situation.

For a better understanding of the subject, this chapter is an analytical presentation of the interface between health and development, development and human development. Approaches to human development (HD) and human resource development (HRD) have been examined. Growth of public finance, especially expenditure aspect is discussed in detail. Philosophical bases of both approaches especially of Mahatma Gandhi, Amartya Sen and Rawls lie at the core of the current chapter. Rationale of public spending on health has also been argued and examined at some lengths.

**Public Expenditure: Social and Merit Goods**

Public expenditure is that branch of public finance which studies the money spending activities of the state. It studies how finances are spent or should be spent, to enable the state to perform its activities according to its goals. In demarcating the orbit of public expenditure, it is defined as expenditure of the public sector where relationships are adequately integrated for common pursuit. It includes both capital and current expenditure. Public expenditure reflects the policies of the government in relation to the pattern of such expenditure.

Public expenditure is undertaken to fulfill those wants which the individuals in their capacity cannot satisfy on their own, due to lack of will and/or inability. Lack of will may be due to ignorance, custom or lack of enlightened self-interest. The second reason is to be found in the inability of people to satisfy certain wants individually. These wants are categorized broadly into three on the basis of their nature; they are social goods, partial
social goods and merit goods. Social goods like defence, public health, roads, bridges etc. are not divisible in consumption and provided equally to all. Principle of exclusion does not operate and marginal cost of these social goods is always zero as against private goods. Partial social goods are separable and exclusion principle also operates, but the purchasers either do not receive the sole benefits in this case or do not pay for all the costs due to externalities. In such case, the government has to equalize private and social valuations by means of appropriate taxes and subsidies. The benefits of education, medical aid or low cost housing are so diffused that they cannot be captured without government intervention. Some other goods are so meritorious that the market mechanism cannot achieve optimal resource allocation. These merit goods efficiently provided through the public budget do not take into account consumer preferences. These goods include subsidised low cost housing, emergency obstetric care (EmOC) or publicly furnished school lunches and are considered desirable for certain sections of society. It is now clear that merit goods are provided to certain sections of the community while social goods to the society as a whole (i.e. defence). Merit goods are considered not to be affected by the income of the individual concerned. Hence, provision of merit goods by the governments or community is more equitable in nature and ensures inclusive growth and distributive justice. Health, education, water supply, sanitation, housing etc. fall under this category. Provision of these goods directly affects the targeted sections of the society (Bhargava, R.N. 1977).

**Development of Public Expenditure Economics**

Classical economists believed in the philosophy of ‘laissez-faire’ and advocated minimum interference of state in economic matters. Their pre-industrialized non-democratic society was very simple and market mechanism was sufficient. But this notion of minimum interference had to be abandoned after First World War, more so during the thirties of the last century. The Great
Depression of the thirties shook the very foundation of classical economics. J.M. Keynes successfully challenged their notion with novel analytical tools like the multiplier, marginal propensity to consume (MPC), marginal efficiency of capital (MEC) etc. He elaborated that even a balanced budget is expansionary in nature and boosts up the economy. He strongly supported deficit budgeting in the situation of depression and pessimism of investors to fulfill the objectives of the economy.

After the Great Depression and the Second World War, the whole world order has drastically changed. Colonies got freedom from the clutches of imperial powers and democratic form of governments came to be established. USSR emerged as a global super power and filled confidence among newly liberated economies to follow the path of planned development. Adolf Wagner’s hypothesis of increasing public expenditure is supported by the statistics of public expenditure of various countries. He hypothesised a functional relationship between the growth of an economy and the relative growth of public expenditure as the “Law of Increasing Extension of State Activities” (Wagner, A. 1958). Later on in 1961, Peacock and Wiseman presented their empirical study of government expenditure in United Kingdom over the period 1890-1955. They formulated several new hypotheses concerning the growth of public expenditure by way of ‘displacement-effect’. It signifies that public expenditure grew over time, not at a constant rate, but roughly stepwise on an ascending spiral. This stepwise ascending spiral due to stress or trauma of social upheavals shifts upward the tax-payers’ notion of maximum tolerable level of taxation. Besides displacement-effect, two other effects– ‘inspection-effect’ and ‘concentration-effect’ are also mentioned. Inspection-effect refers to the fact that social disturbances not only create pressures for increased public expenditure but also expose vulnerable areas which might have been neglected earlier. Social upheavals, like pandemic, not only obtain general sanction for increasing state activity in general and extending it to neglected fields but also mobilize public opinion in favour of
the concentration of many new activities. This is known as concentration effect (Mishra, B. 1992).

Public Expenditure in a Developing Economy

From the above discussion it has come to be realized that in the context of certain goods and services state’s intervention is inevitable. It is so because of failure of market mechanism and incapability of people either individually or collectively to perform purposively. These goods and services can be provided efficiently and effectively by government authority only. People therefore have come to accept the expansion of government activities and increased public expenditure as an inevitable necessity. Increased public expenditure in developing economies has been explained by such factors as the heavy costs of defence and national security against foreign aggression, growth of population and concentration of people in urban areas, increased expenditure on infrastructure for industrial and agricultural development in the country, growing concern of the state in the welfare of its citizens, the problem of maintenance of full employment conditions and so on (Singh, V.K. 1983).

As the economy takes off towards the later stages of development, the domain of government activities broadens enormously. This increase in activity is quite understandable in the context of efforts being made for the achievement of goals of a ‘welfare state’. Different kinds of public expenditure have different demand effects on the resources of the community.

Rationale for Public Expenditure on Health in India

India is not only a country but a continent in itself in respect of human and natural resources. It is home to the second largest world population and the largest number of youth which has come to be referred to as ‘demographic dividend’. If these resources are not properly and efficiently appropriated, development potential cannot be fully realised and development would never
be inclusive and sustainable. India’s rank is low on the measuring rod of human development index - a composite index constituting health, literacy and per capita income. This situation is prevailing since the last more than one decade and though the index has improved the rank has gone down further because other countries have performed better on the human development front. Human resource is a very special kind of input in the production channel as it is both a means as well as an end. Ever since human capital was identified as the residual factor in economic development by Denison, investments in health and education have become the focus of policy action. Acknowledgement of the significance of human resources by Schultz in his presidential address at the American Economic Association gave it respectability in academic circles. In the words of Nobel Laureate Amartya Sen, the objective of all economic activities is to maximize the welfare by enhancing entitlements to satisfy maximum needs. India has a plethora of labour and abundant natural resources; therefore, appropriate policy for progress is to develop human capital as first priority by making provision for health and education.

Gandhian and Rawlsian philosophy of welfare laid emphasis solely on the welfare of the last person. They have argued that the most vulnerable and destitute section should be benefited by the governments’ plans and programmes and if they are benefited and their entitlements are augmented then it is improvement in the real sense. These sections should be benefited through the provision of health, education, housing, water supply and sanitation etc. Our constitution directs the state to make provision for child and maternity care in particular and public health in general (Das, B.K. 2003 and Basu, K. 2003).

Indian economy is at the crossroads. The development paradigm has changed. The Nehruvian path of socialist approach has yielded place to the liberal and neo-liberal approaches. ‘Globalization’ has been truly global in its impact and no sector has remained unaffected. The critical role of investment
in social sector, particularly health and education, in our march towards economic growth with a human face needs to be underlined.

The service sector makes up more than half of India’s GDP and this sector is growing faster than agriculture and industry. India’s overall growth prospects will depend on this fastest emerging sector that is based primarily on human skills and requires more investment to generate human capital through health and education.

India having 16.5 percent of world population accounts for 20 percent burden of diseases of world total. To make the world free from diseases and to ensure a healthy environment for achieving MDGs, India should especially be targeted. It is well known that three out of eight goals are directly health oriented and the remaining either indirectly affect health or are affected by health (Annexure 1.1).

The Indian economy is an agrarian economy and about three quarters of population live in rural areas of acute shortages of health facilities. Average distance covered by rural people for hospitalization is 19 km. while this distance is only 2.2 km for urban people. Only 15 percent of health services reach the rural areas inhabited by 73 percent of the population. Further, these facilities are mostly in a defunct state. Therefore, patients are bound to move towards costly private health facilities. During last decade, private sector’s share of health services has increased from 60 percent to 80 percent.

India is home to the largest number of the poor of this planet who constitute about 37.2 percent of the population, with a vast disparity at states’/regions’ levels according to Tendulkar Panel. Nearly 400 million people are living in conditions of starvation and about the same number live a hand to mouth existence. They cannot avail of essential medical facilities without government assistance. Only a microscopic minority is in a position to face any eventuality (Edwin, T. 2010).

The World Bank and WHO have conducted a joint exercise to compute the loss of man-days lost due to illness. The disability adjusted life years
(DALY) lost in 1990’s was estimated at 344 per thousand of population for India whereas the corresponding figure was 117 for established market economies and 178 for China.

National Commission on Macroeconomics and Health has estimated that 3.3 percent of India’s population (330 lakhs) is impoverished every year due to expenses on illness. The poorest 10 percent of population rely on sale of their assets or borrowings entailing intergenerational consequences. It becomes the moral responsibility of the government to bear this expenditure. However, the state has miserably failed to perform its duty towards its vulnerable citizens. According to a World Bank report, it is estimated that Indians spent nearly Rs. 84,600 crores out of pocket on health care expenses in the year 2004, amounting to 3.3 percent of India’s GDP for that year. If we consider only those who are working, the annual income loss to households associated with NCDs (Non Communicable Diseases) is estimated to be Rs.28,000 crores (Annual Report on Health, GOI, 2010).

The health scenario in India is far from satisfactory. It is lagging far behind not only the advanced economies but also many developing and underdeveloped economies. There is inadequate provision of proper immunization, maternity and child care, emergency services and so on. 20 percent of health expenditure is borne by the government and remaining heavy burden of 80 percent is borne by people themselves. The case is just reverse in advanced economies like UK, France, Germany, Canada etc. (World Health Statistics, 2009).

Health is purely a merit good which generates positive externalities; it affects not only health status of the people but also working and learning capacities which impact on development. Lack of provision of health care to tackle contagious and communicable diseases affects other healthy persons of the society.

After independence central and state governments have taken initiatives to develop health infrastructure and training of health staff, paramedics and
medical personnel, yet there is a large deficit and population burden is seen on health centres- Sub Centres/Primary Health Centres/Community Health Centres. Therefore, it is imperative to augment funds for the health sector (Rural Health Statistics, 2010).

Rural health infrastructure is not so developed and conducive to attract trained health personnel including paramedics to serve the needy persons in these areas. Neither do rural people have access to urban health centers. Nor can innovations like mobile health clinics and telemedicine, technologies which may be an effective alternative in the Indian perspective reach the affected persons. For this bare minimum, governments have to come to the forefront and resume the responsibilities to achieve their declared targets of 2020 and Millennium Development Goals to reduce infant mortality rate, child mortality rate, maternal mortality rate, malnutrition etc.

From the demographic point of view, India has to invest more on maternity and child care particularly, and overall health generally. It is a well-established fact that high IMR creates the scenario of uncertainty of survival of the new-born which is an important factor responsible for frequent pregnancies and child birth. This situation leads to population explosion and takes a toll on the mother’s health in terms of high maternal morbidity and mortality. In such a scenario of an already burdensome population, it will become a permanent bottleneck in the way of economic development.

From the security point of view, health is not only an individual matter in the era of globalization but it is a global phenomenon. Viruses, bacteria and other pathogens have never respected national borders. Globalization is eroding national borders and thereby creating new health challenges that pose a threat to national and global security. Frequent outbreaks of pandemics like SAARS and widespread prevalence of HIV/AIDS expose flaw in health system and undermine national security and diplomatic relations with the world community. Hence, to control the situation, world order should be developed in
such a way that health for all must be ensured (Yuk-ping, C.L. and Thomas, N. 2010).

It is established that more than one-third of the diseases are caused by polluted environment. The suspended particulate matter (SPM) in the environment is responsible for life threatening diseases which can be successfully checked by the government and through cooperative actions. It requires regulating vehicular fuel norms and making rules and regulations for factories which are posing threats to the environment. There is a dire need to make provision of potable water, fresh air, housing and sanitation for the increasing as well as ever expanding population in urban centres particularly, and for overall population generally by the governments and public authorities.

In the international perspective, UN has declared a set of MDGs which target to reduce IMR, CMR, MMR, hunger, malnutrition etc. at global levels. These targets cannot be realised without targeting one-sixth global population inhabiting India. UN has to adopt a need-based approach and should facilitate Indian multi-layered governments and organizations in this regard.

There are wide inter-state/regional disparities on human development in terms of health, education and income. At one end of the spectrum, Kerala shines even among developed nations while Orissa and Bihar peer with Sub-Saharan countries. This exposes the flaws of our plans and policies based on ‘trickle-down theory’. The basis of earlier approach of development is per capita income which is itself a flawed parameter as it does not consider the distributive aspect of development. Without considering the distributive aspect, the entitlements cannot be enhanced to fulfill human needs. Therefore, a large investment is required to overhaul the health sector which will improve health outcomes and help India to achieve a higher rank in Human Development Index.
Health and Development

Health and development are closely interlinked with each other directly as well as indirectly. There is a two way relationship between the two. Economic development embodies higher per capita income, better living standards, more advanced medical facilities, better diet and nutrition and consequent better health outcomes. Improvement in the health status directly contributes to human happiness and therefore, has an intrinsic value. Health is a basic component of human development, and hence determines society’s well-being. Healthy school level children ensure fewer drop-outs, a serious problem in developing countries. Health of the people has a deep impact on the process of development through creating human capital. It determines the average expectation of life, productive age bracket, production and productivity, earning capacity, employment, purchasing power and poverty prevailing in the economy. A highly advanced health scenario will ensure a sustainable supply of human resources that is instrumental in the production channel. It is a well-known fact that economic development is a function of labour, capital and natural resources. Among these inputs healthy and skilled workforce is the most active and instrumental factor in the determination of development level of an economy. Healthy and skilled workforce not only generates income and output but also presents a higher level of their demand.

The concept of human capital formation gained momentum and significance since 1950’s in the western world and in the developing countries much later. In India, it is incorporated in our constitution in the broader perspective. Our first Prime Minister, Pt. Jawaharlal Nehru in his famous speech on India’s ‘tryst with destiny’ on the eve of independence in August 1947, reminded the country that the task ahead included ‘the ending of poverty and ignorance and disease and inequality of opportunity’. After more than six decades of independence, our achievements are inadequate to the task identified by Pt. Nehru in the perspective of ideals cherished by great freedom fighters for the people of India. He pointed out that good health, basic
education, and other human attainments are not only directly valuable as constituent elements of our basic capabilities, these capabilities can also help in generating economic success of a more standard kind, which in turn can contribute to enhance the quality of life even more (Dreze and Sen 1999). The goal of all economic activities in the present democratic set-up is to enhance entitlements of the people to fulfill their needs and increase the level of welfare. The very definition of democracy—‘a system of the people, by the people and for the people’—can never lose sight of the welfare of the people. Provision of health is essential not only from the economic point of view but it is more important for the life of the people and its value is intrinsic. To establish and elaborate the interface between health and development, let us first examine both these concepts.

Conceptually development is defined as a process of change from lower to higher levels of living embodying higher levels of human welfare. The early development economists expressed this in terms of per capita GNP. The most obvious shortcoming of this measure is neglect of the distributional aspect of income generated in the country. In other words, as per capita income grows, distribution of income must not become more unequal and preferably should become more equal. Meier (1976) defines economic development “as a process whereby an economy’s real national income increases over a long period of time”. This definition fails to take into account the changes in the growth of population. If a rise in real income is accompanied by faster growth in population, instead of economic development there will be retardation.

In 1990’s development economists focused more directly on the development process. Mahbub-ul-Haq, a leading Pakistani economist has remarked, “The problem of development must be defined as a selective attack on the worst forms of poverty. Development must be defined in terms of progressive and eventual elimination of malnutrition, disease, illiteracy, squalor, unemployment and inequalities. We are taught to take care of our GNP because it would take care of poverty. Let us reverse this and take care of
poverty because it will take care of the GNP. In other words, let us worry about the content of GNP more than its rates of increase”. In 1980 The World Bank outlined the challenges of development as economic growth, and joined the views of observers taking a broader perspective when in its 1991 World Development Report, it asserted: “The challenge of development is to improve quality of life. Especially in the world’s poor countries, a better quality of life generally calls for higher incomes but it involves much more. It encompasses as ends in themselves better education, higher standard of health and nutrition, less poverty, a clearer environment, more equality of opportunity, greater individual freedom, and a richer cultural life”.

Development is now being viewed in terms of social indicators like health, literacy, nutrition, housing, water supply and sanitation, women empowerment and the like. There is a need to enhance capabilities and entitlements, to use Sen’s terminology, of the whole population. He contends that economic growth can only be an instrument for development but not an end in itself. It is not the quest of more development but “what development”. He has been consistently arguing that the goal of development is the expansion of “human capabilities” that give people the freedom to do things that they value. It is the lives that people lead rather than the commodities that they consume. According to Sen, the people’s economist, three things essential for decent life are health, education and access to resources. If these choices are not available, then many other opportunities remain inaccessible. Development means eradication of poverty, education for all, and health care, provision of clothing, shelter and above all freedom. He emphasized that the ultimate aim of development is the development of human capabilities which endow individuals with freedom to live as they like and to be as they desire (Das, K.B. 2003). The focus of development should be on the development of human beings, their good life and capabilities rather than commodities (Banerjee, A. 2003). He pointed out two distinct elements in this view of economic development: (1) the intrinsic and inalienable of basic capabilities and the
quality of life, and (2) promoting participatory economic growth (with the extension of education, health, elementary freedom) which enhance the quality of life people live to enjoy (Sen, A.K. 1995).

The primary determinants of the rate of growth and development of a nation or a region over time can be divided into three broad categories: human factors, physical factors, and financial factors (Mehta 1976). Without sufficient quality and quantity of any one of these determinants, the long term prosperity of the people of a nation will be limited by the primary constraining factor. Human capital has been defined as the sum total of the knowledge, skills and aptitudes of the people inhabiting a country as they are reflected in higher output and accelerated economic growth (Becker, 1965; Schultz, 1960, 1981; Mehta, 1976). It is a well-established fact that the investment in human capital increases the marginal productivity of labour and they earn more and can command greater market clearing power. In this way, this investment enforces both the supply as well as the demand side of the economy. Shaw (1989) concluded that the elasticity of substitution for human capital is not constant as exogenous investment models presume, rather it rises over time. The utilization of human beings as a factor of production is generally larger than that of physical capital, requiring less frequent fixed replacement costs of human capital inputs (Tilak, 1987).

Health has been defined by WHO as a state of complete physical, mental and social well-being, and not merely absence of disease and infirmity. This definition is very comprehensive. Health status of a country has an important bearing on economic development. Healthy people are more productive, earn more and save more, and thus exercise a positive influence on development. Health is a means of empowering the deprived sections of society and thus an important element in the strategy for poverty alleviation. Access to preventive and curative health care enhances entitlements of the poor by enabling steady employment, less absenteeism at the workplace, improving productivity and facilitating a demographic transition also. India, a country of
‘demographic dividend’, can harness these blessings into production channels as a stepping stone on the path of inclusive growth and sustainable development.

Accepting the importance of health Schultz has emphasized that together with education it forms the basis of human capital for increasing individuals’ productivity. In any scheme of poverty reduction, economic growth and long-term economic development in low income countries, health occupies a central position. In other words, it can be said that for sustainable and inclusive development it is health and like facilities as education, housing, potable water, sanitation and recreation that need to be made available. Though all classes of people within the developing countries are affected by a poor social infrastructure, it is the poor who are hit harder than the rest. The poor are much more susceptible to diseases because of lack of access to clean water, sanitation, and medical care. Secondly, the poor are much less likely to seek medical care even when it is urgently needed. Thirdly, out-of-pocket expenses on serious illnesses can push the poor into a deep poverty trap. In fact a single bout of illness of a family member is enough to cause financial distress for many.

High prevalence of diseases like malaria and HIV/AIDS are associated with persistent and large reductions in economic growth rates. Poor health in sub-Saharan Africa, South Asia and pockets of high diseases elsewhere in the developing world has had pernicious effects on economic development. A statistical estimate suggests that each 10% improvement in life-expectancy at birth is associated with a rise in economic growth of at least 0.3 to 0.4 percent per year, other growth factors remaining constant. Thus, the difference in annual growth between a high income country (LEB=77 years) and a low income country (LEB=49 years) is about 1.6% per year and has a cumulative effect over time (Report of the Commission on Macroeconomics and Health WHO, 2001). Apart from economic considerations, humanitarian concerns also merit attention and need to be an essential part of any development strategy.
aimed at achieving the MDGs adopted by the global community. WHO Commission on Macroeconomics and Health, set up in 2000, has observed that development would not occur automatically in the developing world without increased investment in health. Prof. Sachs of Columbia University has observed that India which is spending less than 1 percent of its GNP on its healthcare budget will not be able to achieve a sustained growth of 8 percent without a significant increase in its budget for health, nutrition and education.

A study by the World Bank in 1993, and another by Gupta and Mahajan, 2003 has justified investment in health on purely economic grounds for at least following seven reasons:

- Good health does not only reduce losses due to illness but also increases the productivity of workers by enhancing their efficiency, vigour and zeal. Their work hours expand with greater mental and physical potential.
- Improved health reduces risk of morbidity and mortality which ensures benefits to the society in three ways: cost of death (the value of each life saved), cost of morbidity (loss of work days and work efficiency due to sickness) and cost of treatment (money spent on drugs, medical services, transport to hospital, costs associated with attendants, etc.).
- Improved health scenario heralds a new horizon by checking frequent outbreak of epidemics and permits the penetration and use of unexplored natural resources. For example, an area previously blighted by dangerous flies and mosquitoes becomes attractive for settlement, migrants move in, productivity rises.
- Better health enhances learning of children by increasing their enrolment and regular attendance in school. It creates positive attitudes, upgrades cognitive and psycho-motor abilities which generates an overall optimistic scenario.
- Better health releases resources for alternative uses, which would otherwise have to be spent on treating illness. Healthcare expenditure
reduces the incidence of disease resulting in big savings in treatment costs.

- Better health makes life more satisfying by contributing to a better quality of life. One of the most important social effects of health services is improvement in the quality of life.

- It has been found that the poor die younger and suffer more from disability. They are exposed to greater risks from unhealthy and dangerous conditions, both at home and at work. Malnourishment and the legacy of past illness imply that they are more likely to fall ill and slower to recover, especially as they have little access to health care. When the family’s breadwinner becomes ill, other members try at first to cope up by working harder themselves and by reducing consumption, even food. Both the adjustments harm the health of the family. If free health care is not available, the costs of treatment may drive a family deep into debt.

Accepting the importance of health, the UNO has laid down 8 MDGs, which include 16 targets and 48 indicators. Three out of eight goals, eight of the 16 targets and 18 of the 48 indicators relate directly to health. Child mortality is targeted to be reduced by two-thirds by 2015, maternal mortality by three-quarters, HIV/AIDS, malaria, tuberculosis and other diseases are also targeted to be reduced/eliminated (HDR 2003 & Annexure 1.1).

**Development and Human Development**

Welfare economics is the heart and conscience of economics. Human Development Index, 1998, combines life expectancy, adult literacy, school education and per capita income (PCI) in one single index. Growth in terms of only per capita income is no growth. It is even anti-growth if it does not raise literacy levels and health standards of the people. It is wrong to suggest that economic growth is not necessary for human development. No sustained improvement in human welfare is possible without growth. But it is wrong to
suggest that high economic growth will automatically translate into higher levels of human development. It all depends on the policy choices the country adopts. Costa Rica, Cuba and Vietnam may have managed to harvest the fruits of their economic growth well. On the other hand growth has been limited and halting in Kuwait and Saudi Arabia, where per capita income is very high but there is absence of proper policy to raise education level and ensure social development. Their HDI is very low. For countries of South Asia and sub-Saharan Africa, rapid human development requires a combination of faster growth and a more aggressive public action in health, education and basic nutrition (Das, B.K. 2003).

Economic growth is a part of the over-all development process. Sen has advocated a positive relationship between economic growth and human development. He argued that a better entitlement to education, health and nutrition provided by the state helps to avoid famine and starvation like situations. This entitlement that is the right of a person is exercised over goods and services which raises their capability. It may be acquired through market or it may be granted by the state in different ways (Sen, A.K. 1981). Sen as philosopher makes a sound balance between Rawlsian primaries and Kantian philosophy in the soil of Mahatma Gandhi for the betterment of universal human being. Gandhiji declared that true economics stands for social justice; it promotes the good of all equally, including the weakest, and is indispensable for a decent life. This requires enhancement in capacity which is supported by entitlements or rights to all kinds of basic goods and facilities. For this government intervention is inevitable because market derives food to where the money is, not where the empty stomachs are. This has become a global phenomenon in the era of globalization. Sen says we must reform, we must change and our objective is to develop human opportunities. We must improve the lot of the poor and the common man in the society. India has to go a long way as her economic reforms are still nascent and incomplete.
The interface between economic growth and human development is wisely established by Sen. In the support of his hypothesis he has illustrated it with the example of Kerala. On the basis of index of social and human development, i.e. literacy rate, primary education, fall in birth rate and death rate, increase in longevity of life, equality of women, Kerala with her low average per capita income stands on equal footing with developed nations of the West as well as some socially developed nations of the Third World. Sen has suggested others to take lesson from the model of social development of Kerala. According to Sen, social development is not only the important fact of superior life independently; it may also be the medium of rapid economic growth having a comprehensive basis (Dreze, J. and Sen, A.K. 1999).

Kerala on one hand has succeeded unprecedently socially. On the other hand in the wide Hindi belt prevalence of illiteracy, ill health, caste discrimination, women inequality poses a socially explosive backwardness. The social situation is both the cause and result of the grave economic backwardness and poverty. Sen has suggested that distributive measures should be applied with the increase of production. According to him, the crisis of today is not the economic crisis, but a crisis of philosophy. We may say, it is not the question of “philosophy of poverty” but “the poverty of philosophy” (Thakur, R.N. 2003).

**Human Resource Development and Human Development**

The basic problem concerned with economic development is how to ensure distributive justice of whatever the level of growth achieved. To Sen the welfare of a nation depends on how contended the nation is rather than on how much wealth the community has. In a sense, the welfare of the community depends more on the soundness of its approach to life than on its income. Welfare according to him is a happy state of mind of a person or in other words, the amount of satisfaction he obtains. Welfare depends as much on the non-material aspects of man’s accomplishments as on his command over
material resources. A happy state of mind depends on one’s health, moderation of habits, refinement of tastes and a capacity for spiritual poise. It is therefore of vital importance to see that the national income is well distributed so as to maximize the national welfare.

By making a synthesis of the Western materialistic philosophy with the Eastern philosophy, Sen has integrated welfare economics with human development. The Human Development Reports which have been published since 1990 have endorsed Sen’s approach for understanding the development process. Development is defined by the Human Development Report as a process of enlarging people’s choices to lead a long and healthy life, to acquire knowledge and to have access to resources needed for a decent standard of living. The sustained endeavour of UNDP since 1990 in the context of social attainments in various countries has acted as a catalyst and has compelled the academicians and policy makers to devote attention to the role of social sectors in economic development. UNDP in its Human Development Reports distinguishes the human resource development (HRD) and human development (HD) mainly on the basis of the means and ends. According to the UNDP approach, the HRD considers the people as means used for increasing the production of commodities. The human development (HD) approach identifies the people as ends of the activities. Thus Sen’s approach to development is ‘people centred approach’ or human development approach and not just human capital development approach. The latter is a means for capital formation and the former is augmenting the quality of life and capacity with extended freedom and power of the people to live the life they desire.

There are two distinct schools of thought that could govern public policy with respect to social sectors. The first is the neo-classical view point, which is reflected in the concept of HRD, the theories of human capital and the more recent theories of endogenous growth. The alternative approach following neo-Kantian tradition is that of human development which has been defined as the process of enlarging the range of people’s choices. The main concern of the
HRD is that human capital is one of the factors of production which requires investments to raise the knowledge, skill, aptitude, and health as well as nutrition level of the country’s population. The expenditures may include programs for the improvement of health and nutrition, the development of values, interests, motivations, and attitudes which are generally considered conducive to economic development, but which may not be readily identifiable or testable as such. The cost-benefit analysis of education and health is done on the basis of the economic rate of return. The impacts of nutrition and health care have been measured at the micro as well as macro levels. At the micro level health and nutrition enter wage relations as inputs in the household, farm and firm production functions and also affect efficiency in schooling for children. But the advocates of human development treat the investment in human capital more than the means for raising production. The main objective of human capital formation is the welfare of the people. They are essential components of human capital (Jamaluddin, K. et.al; 2006).

Theory of human capital or HRD approach is criticized on the grounds that it is narrow and concerned only with the training as well as enhancing capabilities of the younger people to be employed, while Human Development approach is concerned with all the members of the society irrespective of the age groups. The poor, the infirm and the disabled fall within the ambit of Human Development approach. Present as well as future aspects of all economic activities are considered in this approach. It is traced back to ‘basic needs’ approach of the mid-seventies and it emphasizes the provision for all the basic means of well-being which include among other things, food, health and education. The UNDP’s human development concept emphasizing the enlargement of the range of people’s choices goes much further than the concept of basic needs as it is based on functioning achievements rather than on commodity possession. The dimensions of human development include numerous facets of development such as physical, social, intellectual, emotional, political, moral and spiritual forms of development. People should
be physically sound, healthy and free from disease so that they may engage themselves efficiently in productive activities. For this purpose, they need sufficient and nutritious food and freedom from disease. They become more capable by their intellectual development through the provision of education. Human beings are social animals and, therefore, they need an environment where they may co-exist with other fellow beings. There is need of political freedom that is the prevalence of democratic system for expressing their thoughts freely and electing the leaders of their choice. At the same time, they need the moral and spiritual development also in order to lead a disciplined and peaceful life. Moral values prevent people from enjoying the comforts which become neighbor’s poison.

The concept of human development encompasses empowerment, cooperation, equity in basic capabilities and opportunities, sustainability and security. In recent years, a few more dimensions included are participation, sustainability and gender equity. In this way, the concept has become more broadened and deepened. The various dimensions as per HDR-1996 are summarized below:

**Empowerment**

With the expansion of human capabilities the choices of people have enlarged and make them empowered to be free from hunger, want and deprivations. People’s choices are limited due to lack of sufficient income, education and sound health. For instance, freedom to buy goods and hire services in the market is not enjoyed by poor as they have lack of purchasing power. Illiterate persons cannot enjoy the freedom to read the newspapers and taste other literatures. Similarly, the freedom to move within the territory of a country is prevented by morbidity of the people.

**Cooperation**

Cooperation, another dimension of human development is the basic trait of being human in a society. To ensure well-functioning socio-economic phenomena, cooperative and harmonious environment is inevitable. It requires
a positive and cooperative attitude on the part of other fellow-beings. Thus human development is not only concerned with human-beings but also with their cultural environment which determines their way of life, interactions with each other and provides directions for a cohesive life.

**Equity**

Equity is one of the most important aspects of human development. It is imperative for more advanced outcomes of various facets of development. In the context of human development it is not only concerned with the distribution of income and wealth but more importantly in terms of opportunities and capabilities. For achieving such equity, emphasis is given to and appropriate strategies adopted for helping the poor, eliminating gender discrimination and supporting the sick and the disabled people. It requires bridging the prevalent wide gaps at states as well as rural/urban levels by adopting plans and policies for inclusive growth and sustainable development.

**Sustainability**

Sustainability is much talked of in the parlance of present day economy. It is concerned with intergenerational equity which emphasizes the enjoyment by the present generation without compromising the enjoyment of future generations. Paradigm has been shifted from economic growth to sustainable development. Hence, unwise and over extraction of natural resources, deforestation and degradation of environment by the present generation inflicts costs on the future generations. The issue of sustainability goes beyond the environment in the context of human development. It further requires the creation of social and economic systems which transmit opportunities to the future generation.

**Security**

Security in the domain of human development goes beyond defending the borders of the country against foreign aggression. It encompasses security of life, of livelihood, of body, of employment as well as the security from unhealthy environment full of evils and various types of illnesses.
The various dimensions of human development as discussed above are highly significant because they can be used as touchstones to evaluate the quality of growth. The growth of a country would be considered appropriate if it promotes human development in all its dimensions. It should:

- Generate full employment and security of livelihood.
- Foster people’s freedom and empowerment.
- Distribute benefits equitably.
- Promote social cohesion and cooperation.
- Safeguard future human development.