Abstract

Public Expenditure measures the course of economic development as well as the administrative skill of the government in a country. The nineteenth century economists could not recognize the possible favourable effects of public expenditure. As a result the study of public expenditure was totally neglected till almost the first quarter of the twentieth century when the importance and significance of public expenditure was fully realized.

The fact was that the study of public expenditure was neglected because of the mistaken belief that all public expenditure were useless and are a waste. This belief was strengthened by the writings of the classical economists and especially that of Adam Smith, who advocated that the Government should restrict its activities to “justice, police and arms”, that is to say the protection of the citizens from foreign aggression and internal disorder. However, in the twentieth century it was realized that public expenditure is far more important in its implications and bearing on public welfare their public revenue.

The emergence of welfare states in the post world war period focussed attention on government expenditure. More or less during the same period the importance of human resources as an important factor in economic development was realized by Denison. Both these considerations focused attention on government expenditure on social sectors which has now become an integral part of government budgets, more so in developing countries. Social sectors compromises education, health and family welfare, water supply, sanitation, housing and rural development, social welfare, nutrition and other welfare measures designed to improve the quality of life. Public expenditure on social sectors make the people healthier and efficient. It is the state which can create the ‘Critical Skills’ needed for rapid development by investing in human capital.
Uttar Pradesh is one of the most backward states of India with a high birth rate of 30.4 percent (SRS 2005) and higher infant mortality rate of 73 (SRS 2005) than the national average of 58, literacy rate of 57 (Census 2001) is still far from satisfactory. U.P. also has a female literacy rate of 43 percent, which is well below the national average of 54 percent (Census 2001). Its life expectancy is low because of high IMR and crude death rate. With respect to another significant economic parameter, per capita income, performance of U.P. is poor. Though, there are several other reasons also for the backwardness of the state of Uttar Pradesh, out of which lack of proper planning of public expenditure, its magnitude and lack of productive directions have been imperative. U.P. being a backward state needs greater government support.

However, the government has given much importance to the social sectors but it has not taken any strong action in this respect. After more than half a century of planned development, the position with respect to basic needs is far from satisfactory. So there is a large difference between what the government says and what the government does. For improving the quality of life of the citizens, it is necessary for the government to increase public expenditure on social sectors for eradication of poverty, provision of basic minimum services including nutrition, education, health care etc.

In the present study, an attempt has been made to examine the financial position and recent trends in public expenditure on social sectors particularly on education and health in Uttar Pradesh during the period from 1987-88 to 2004-05.

Scope and Objectives

Public expenditure on social sectors is undertaken to ensure a basic minimum to those who are not in a position to fend for themselves. It is meant for improving the quality of life of the people.
With the parliament passing in December 1954, a resolution adopting the socialist pattern of society as the objective of economic and social policy, the government was required to play a crucial role and assume greater responsibility in financing the social sector. The main responsibility for social sector expenditure lies with the states. Our approach of the study is a positive one. It encompasses the analysis of the growth and trends in public expenditure on social sectors in Uttar Pradesh. It explains the factors underlying the growth and also discusses the composition of educational expenditure and health expenditure in Uttar Pradesh as well as examines the financial aspect of the government expenditure.

Useful results have been drawn from foreign experiences, which are given to the study. Budgetary analysis and that of plan allocation for social sectors especially for education and health sectors at National and State level lie at the core of this investigation.

In the present study an attempt has been made to focus our attention to the trends of public expenditure on social sectors in the context of Uttar Pradesh. As this field of study contains so many components, the two important sectors, education and health will receive focus in this discussion.

The following are the objectives of the study:

1. To examine the state government expenditure and analyse the trends of the public expenditure on social sectors in Uttar Pradesh particularly on education and health.
2. To analyse the placement of social sectors in the scheme of plan priorities in India.
3. To compare the position of social sectors in Uttar Pradesh with other less developed and more developed states, and also the same in the developed and developing countries particularly the neighbouring Asian nations.
4. To analyse the significance of the public expenditure on social sectors.

5. To assess the impact of such expenditure on the levels of health and education prevailing in Uttar Pradesh.

6. To take into account a comparative analysis of expenditure on health and education in different states of India.

This study has been organized into eight chapters including the current one.

Chapter I- is the introduction of the study. It highlights the importance, objectives of the study, methodology and the data base and the period concerned by the study. A review of literature though scant it is, has been attempted in this chapter, which takes up the discussion of trends of public expenditure in social sectors particularly in the area of education and health.

Chapter-II deals with the concept related to Public Expenditure and Economic Development, which demonstrates the fact that government intervention is necessary for economic development. It also presents the approaches to public expenditure, growth of public expenditure and importance of public expenditure for an underdeveloped economy. This chapter also gives the effects of public expenditure and the need for public expenditure on social sectors.

Chapter-III presents the trends of public expenditure on social sectors in India. This chapter analyses the placement of social sectors, particularly health and education in the scheme of plan priorities in India, without going into the details of overall plan making process. Plan wise discussion on this chapter brings out the plan policy parameters with regard to the development of social sectors. The main aim of this chapter is to see what the Plan documents say on social services. This chapter also examines the public expenditure on sub-sectors of education and health in the Five Year plans.

Chapter-IV analyses the trends of public expenditure on social sectors in Uttar Pradesh. It discusses the allocation pattern of government budgetary
expenditure on the social sector as well as its various individual components during the period of 1987-88 to 2004-05. It also discusses the plan and non-pain expenditure in Uttar Pradesh by different constituents of social sector, especially education and health.

Chapter –V examines the Public Expenditure on education in Uttar Pradesh. It examines at length the ‘capacity’ and ‘effort’ of the State Government to spend on education. The aggregative analysis aims at funding out the State’s ability to invest in education, which is the most important social sector. Itemisation of educational expenditure into major economic and accounting heads and the analysis of the components of educational expenditure have also been taken up in this chapter.

Chapter-VI analyses the public expenditure on health, the second most important social sector, in Uttar Pradesh. This chapter has tried to highlight the trend of prioritisation of health in terms of the proportion of the government budgetary expenditure during the period of 1987-88. A discussion on the indicators of health status is also given in this chapter.

Certain inter-state and international comparisons of the social sectors are given in Chapter-VII. Comparison is done to obtain the position of the social sectors in Uttar Pradesh with what is obtained in less developed and more developed states of India. Such comparisons are also extended to certain developed and developing countries particularly the neighboring Asian nations. This has helped in reaching at certain important conclusions, which has proved to be very useful in policy recommendations.

Chapter-VIII of the thesis summarises the major findings of the study and brings out some broad generalizations and policy implications there of which flow from this research work. The conclusions of the study also come across a number of limitations, which we have discussed at the appropriate places. In each chapter, the conceptual and statistical problems related to that
particular chapter have been discussed which are to be considered fundamental to this type of study.

**Methodology and the Data Base**

To make an empirical analysis the statistical data is collected from two main sources. These sources are (1) primary sources and (2) secondary sources.

The present study is based on secondary sources. The annual budgets of the Government of Uttar Pradesh constituted the main source of information. For inter state comparisons, the publications of the Ministry of Human Resource Development, Government of India have been used. Plan documents including Five Year Plans and Annual Plans of India and of Uttar Pradesh, Plan reviews and evaluation, Reports of the Central and particularly State government embodying policy pronouncements, Reports and other publications of the Ministry of Health and Family Welfare, Government of India, New Delhi, Reports of the Ministry of Health and Family Welfare, Government of Uttar Pradesh, Lucknow, Report of the National Health and Family survey of Uttar Pradesh. Publications of research organizations and of individual authors in the related area, publications of Central Bureau of Health Intelligence, New Delhi and unpublished records were consulted in this study. RBI Bulletins and Finance Accounts were also consulted for the purpose of data. Material for international comparisons have been drawn from World Development Reports and other publications of World Bank, Economic Survey, Human Development Report and other reports of the United Nations Development Programme.

The methodology applied is simple, analytical and involves calculation of percentages, simple growth rate and compound growth rate.
Compound Annual Growth Rates in the case of education and health sector have been calculated for the expenditure on their different constituents, during the period of study.

**Period covered by the study**

The study mainly covers the plan period in the India beginning with 1950-51 until date (for which the latest data are available). Plan period is the base in chapter –III and in chapter IV, chapter V and chapter VI, the period covered is from 1987-88 to 2004-2005. However, in chapter VII due to the non-availability of the required data full plan period is not covered. The results have been obtained from data analysis for a shorter period. There cannot be any firm terminal for this type of study, therefore the analysis extends upto the period for which the recent data is available.

**Limitations of the Study**

The present study pertains to the period just before economic reforms, i.e. 1987-88 upto 2004-05. Some of the limitations of the study are:

1. Relevant data on social sectors other than education and health was not available in a satisfactory form, so time series pertaining to it could not be examined.

2. There were discrepancies in data, therefore the data which appeared to be more likely was taken into consideration.

3. The break-up of the social sector is different in later plans than in earlier ones which posed difficulties in making comparisons and predicting trends.

4. An empirical study involving statistical calculations could not be undertaken due to non familiarity with statistical methods.
Conclusions

It is concluded that public expenditure has increased enormously during the plan period in India. So far as resource allocation is concerned the social sector remained in relatively disadvantageous position. In India, the social sector which accounted for 24 percent of the plan outlay in the First Plan, lost priority in the subsequent plans and percentage allocation to this sector was generally 20 percentage or less of the total plan outlay/expenditure.

While analysing the plan outlay on different social sectors we find that educational expenditure has shown a marked rise but as percentage of total plan expenditure has shown a significant decline. For this reason the government even after half a century of planned development in India has not been able to eradicate poverty or to achieve 100 percent literacy. However, analysing the whole situation of the plan period we can say that India has made significant achievement in the development of education, which has contributed, to economic growth and development. While the achievements are impressive, the factures are numerous and shocking for example, drop out rates after a few years of schooling are high especially of girls. The other social sector, which comes next in importance, is health and family welfare. In percentage terms we find a very small allocation to health, the maximum being 5 percent of social sector expenditure in the First Plan. That’s why the life expectancy is low at 62.4 years only.

Since the commencement of the planning process in 1950, in India all the previous Five Year Plan as also the ongoing Tenth Five Year Plan did not bestow that much attention to social sector development as it deserved. The financial outlays by the government were generally on the lower side. Midterm appraisal of the Tenth Five Year Plan by the Planning Commission admits that social sector like education and health have in the past not received the desired level of financial support both from the centre and the states due to financial
constraints. Increased public spending on education and health and successful public private partnerships, for creating social infrastructure and successful delivery of services is the need of the hour.

In Uttar Pradesh, on examination of financial allocations during the plan period, we find that the increase in absolute size of the plan has led to an absolute increase in the social sector expenditure. But in percentage terms allocation to social sector fell from 29 percent in the First Plan to 19.5 percent in the Eighth Plan. The low action of government in respect of improvements in social sector is to be seen in the entire plan period. The government is easily putting are on social sector when they face resource crunch.

We have also analyzed the allocation pattern of government budgetary expenditure on the social sector as well as its various individual components during the period of 1987-88 to 2004-05. A break up of expenditure into plan and non plan reveals that since 1987-88 up to 2004-05, the relative ratio of plan expenditure on social sector has fallen from 32.0 percent to 29.1 percent while share of non plan expenditure has increased from 68.0 percent to 70.9 percent. Plan expenditure on social sectors grew at a compound annual growth rate of 11.7 percent, while non plan expenditure went up by 12.6 percent and total social sector expenditure rose by 12.3 percent per year.

It is also concluded that the growth rate of education and health expenditure in Uttar Pradesh is slow because the ratio of total social sector expenditure in the total budgetary expenditure has hovered around 30 percent. However, in the education sector, the educational expenditure as percentage of total state budgetary expenditure was around 18 percent for most of the years. On the other hand, expenditure on health sector, as a proportion of total state budgetary expenditure instead of increasing has declined during the period of 1987-88 to 2004-05 as it was 6.8 percent in 1987-88 and 4.4 percent in 2004-05. The Uttar Pradesh Government has to increase the share of education and
health sector from the state budget. No doubt, urgent allocation of funds are required in these sectors but it is also an important fact that even if the state makes appreciably higher allocations in social sector such outlay per se, are unlikely to lead to ‘outcomes’ unless the fundamental strategical assumptions about development are altered. The government must check population growth. Due to the increase in population the efforts of the government are not satisfactory to meet the growing demand of the state.

On examining the different components of the social sector as percentage of total social sector expenditure in Uttar Pradesh during the period of 1987-88 to 2004-05, we find that of all the components of social sector, education invariably consumes the largest part of the state budget. But the health sector, consistently declined in terms of its percentage share during the given period. Without proper expenditure on social sectors like education and health, no country can be considered properly developed but in the case of Uttar Pradesh, state government has been continuously ignoring education and health aspects. The state government must try to make up the deficiency by incurring a larger expenditure on social sectors. There is also an obvious need for better utilization of the allocated money.

Social sector expenditure as a ratio of State Domestic Product was around 6 percent for most of the years during the period 1990-91 to 2002-03. Similarly, expenditure on education was less than 4 percent of SDP except in 1998-99, when it was 4.3 percent. Health expenditure percentage of SDP shows a declining trend from 1.3 percent in 1993-94 to 0.9 percent in 2002-03. The share of education and health as a percentage of SDP has been falling which is not a favourable norm of expenditure fixed for education was 6 percent and for health 4 percent. There is a strong need for the government to substantially increase their spending on education and education because it has a direct impact on our literacy and life expectancy of the people, it is necessary to
increase the expenditure on education to about 6 to 7 percent of SDP and on health to about 4 percent of SDP.

While examining the funds allocated to education, during the plan period, we find that a major part of almost fifty percent or more goes to elementary education. Secondary education occupies the second place and 10 percent or less has been devoted to higher education.

More than one-fifth of the state’s revenue expenditure is devoted to education which constitutes about 3.5 percent of NSDP. Capital expenditure on education takes the form of loans and is, therefore, of almost negligible amount in the total education budget.

Regarding the composition of three main sectors of educational expenditure, the dominant head of expenditure is grants to non-government educational institutions. The annual compound rate of growth of grants to non-government educational institutions from 1987-88 to 2004-05 has been the highest (24.7 percent) in case of non government secondary schools and 12.9 percent in respect of grants to non government degree colleges.

Regarding the composition of health expenditure, the largest share of the state health budget goes to medical and public health i.e. 81.98 percent, while family welfare occupies only 18 percent of the state health budget.

The revenue expenditure on health and family welfare as percentage of total government revenue expenditure has declined. It is also noticed that expenditure on salaries dominates revenue expenditure by the government in both medical and public health and family welfare.

Regarding the composition of the Rural Health Services and Urban Health Services of health expenditure the dominant head of expenditure is Allopathy. The annual compound rate of growth of Allopathy from 1987-88 to 2004-05 has been the highest in case of RHS and 11.9 percent in UHS. In the case of medical education, training and research also, allopathy is the dominant
item and it accounts 92.2 percent of the growth of the health budget. The average compound rate of growth of allopathy is 10.5 during the same period.

While comparing the international data, we find that public expenditure on education is much higher (5 to 8 percent of GDP) in developed than in developing countries (e.g. India 4.1 percent). Similarly, the expenditure on health as a percentage of GDP is much higher in developed as compared to developing countries.

Educational expenditure as a ratio of SDP in Uttar Pradesh was 3.9 percent in 1999-00, much lower than the 6 percent recommended by various committees set up from time to time compared to Kerala 4.58 percent, Assam 6.53 percent and Himachal Pradesh 7.54 percent.

On the other hand, the health expenditure as a ratio of SDP in Uttar Pradesh was 0.87 percent in 1999-00 compared to Kerala 1.20 percent, Assam 1.16 percent and Himachal Pradesh 2.27 percent. Budgetary expenditure on education as percentage of total budget for Uttar Pradesh has been around 20 percent during the last fifteen years and the budgetary expenditure on health as percentage of total budget for the state has been around 6 percent.

Uttar Pradesh ranks very low in terms of both the per capita educational expenditure and per capita health expenditure. The comparisons of the states show the backwardness and low ranking of Uttar Pradesh in terms of social sector expenditure. So in order to improve the educational and health status of the masses of the states, the state government has to increase the share of social sector expenditure from the state budget.