CHAPTER - I

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1.1 Introduction

Economic development theorists generally agree that the quality of human resources has a significant impact on economic development and growth. This body of thinking is of the opinion that the quality and quantity of labour determine production by virtue of it being a factor of production. Moreover, improving the quality of the labour force yields implicit, non-economic outputs related to the generation of ideas and decisions which have a significantly positive impact on investment, innovation and other growth opportunities. Although various factors determine the quality of human capital, it is the quality and quantum of public spending/investment in a socialistic welfare characterized state, which determines the quality of and quantity of human development.

Human Development is broadly defined as a process of enlarging people’s choices, as well as raising the level of well being. Theoretically, these choices can be indefinite and vary over the time and space. From among these the choice to lead a long and healthy life, the choice to acquire knowledge and be educated, and to have access to resources needed for a decent level of living are considered to be three most critical and socially valuable perspectives. A range of social outcomes can reflect these choices in the well being of the people, most important being life expectancy, literacy and the per capita income. Life expectancy and educational attainments are value ends in themselves; and per capita income is to incorporate other aspects of well being not captured by indicators on the social attainments on education, health and longevity of people. Therefore, development has to be woven around people, not people around development. It has to be development of the people, by the people and for the people. Based on the above logic, it can be argued that Human development has two sides: (1) the formation of human
capabilities such as improved health, knowledge and skills and (2) the use of their acquired capabilities for productive purposes, leisure or for being active in cultural, social and political affairs.

The scales of human development must finely balance the two sides otherwise considerable human frustration may be the resultant outcome. Striking a balance between these two requires a smooth and steady growth of per capita income. According to this sense of human development, income is clearly one of the options that people would like to have, albeit an important one. But it is not the sum total of lives. Development must, therefore, be more than just the expansion of income and wealth. This gets substantiated by the results of several empirical research studies which reveals that per capita income cannot be a sole determinant of achieving human development; public spending on social sectors also has a significant role to play (Streiten (1979)\textsuperscript{1}, Isenman (1980)\textsuperscript{2}, Sen (1981)\textsuperscript{3}, Anand and Ravallion (1993)\textsuperscript{4}, Chakraborty (2004)\textsuperscript{5}).

In a socialistic and welfare characterized state, governments directly control a significant share of national resources and shape the policy environment for private economic agents and civil society. In the interest of economic and social progress, the use of public resources must emphasize efficiency and equity. Such involvement of the government in turn raises the quality and sustainability of development programmes and helps to build a better scale of human development. As a result, the question of human development remains as a logical offshoot of the public economic policies of expenditure on social services which comprises public expenditure on education, health and family welfare. To what extent, public economic policies of public expenditure affect the scale of human development remains an open question.

Financing human development is a very critical aspect of ensuring that public policies become concrete realities and that the poor and vulnerable sub populations are supported by the state, enabling them to become empowered being capable of realizing the inherent potential in a participatory and democratic context. As the UNDP Human
Development Report (1991)\(^6\) noted, the best strategy for human development is to ensure, through strong policies, generation and better distribution of primary incomes. In addition, government services in social infrastructure (schools, health clinics, nutrition and subsidies) as well as physical infrastructure (roads, electricity and housing) can help the poor bridge the gap caused by paucity of income.

Policy makers in recent years are increasingly interested in the composition of public spending. This attention stems from the recognition that expenditure allocations in favour of education and health can boost economic growth while promoting equity and reducing poverty. This particular argument has been put forward by many researchers like, Barro (1997)\(^7\), Chu (1995)\(^8\), and Tanzi and Chu (1998)\(^9\). If, the above argument will be taken as a starting point for establishing a causal effect relationship between the level of public expenditures and the level of human development then the relevant research question that arises here: does public policy stance make an impact on human development? Since there is a contemporaneous transformation of many socio-economic and policy variable that result in human development, it is a difficult task to establish a bivariate link between the growth of public expenditure and growth of human development. However, we believe that a causal-effect analysis would enable us not only in understanding the intricacies of public expenditure growth but also to have a better understanding of the mechanism of changes that take place in the quantum of public expenditure in the social sector and the way that it gets transformed to the end result of better human development indicators.
1.2 Background of the study

The available literature on the casual effect relationship between the growth of public expenditure and the pace of human development remains elusive in the sense that there exist two opposing views to this intricate relationship. In fact, the evidence on whether the aggregate education and health spending have a beneficial impact on relevant social indicators- taken as a proxy for outputs of public spending on social sectors- is mixed.

Many studies show that the relationship between public spending for education and measures for education attainment is weak. The note worthy studies are Landau (1986)\textsuperscript{10}, Noss (1991)\textsuperscript{11}, Mingat and Tan (1992)\textsuperscript{12} and Flug, Spilimbergo, and Wachtenheim (1998)\textsuperscript{13}. Instead, other variables have been found to be important in explaining education attainment. Appleton, Hoddinot, and Mackinnon (1996)\textsuperscript{14}, in their studies made an attempt to include per capita income, the age distribution of the population, parental perceptions of costs and benefits, and family background of parental education. Gallagher (1993)\textsuperscript{15}, in his study, explains that after correcting for its quality and efficiency, spending on education has a positive impact on indicators of educational attainment.

Similarly, many studies like Kim and Moody (1992),\textsuperscript{16} McGuire and others (1993)\textsuperscript{17}, Aiyer, Jamison, and Londono (1999)\textsuperscript{18}, Musgrove (1996)\textsuperscript{19}, Filmer and Pritchett (1997)\textsuperscript{20}, and Filmer, Hammer and Pritchett (1998)\textsuperscript{21} find that the contribution of public health outlays to health status as measured by infant mortality and child mortality is either small or statistically insignificant. Carrin and Politi (1995)\textsuperscript{22} concluded that poverty and income are crucial determinants of health status indicators but fail to find that public health spending has a statistically significant effect on these indicators. They contended that cross-country differences in income alone account for 84 percent of the variation in infant mortality, with socio-economic variables accounting for 11 percent, and public
spending for less than one sixth of one percent. These results are echoed by Demery and Walton (1998)\(^\text{23}\) who note that the conclusion that public spending is a poor predictor of good health is a common one. In contrast, Hojman (1996)\(^\text{24}\) in his study concludes that public health spending has a statistically significant effect on health status.

Although the evidence presented in the above-mentioned studies in general goes against the presumption that higher public spending on education and health is effective in improving social indicators, some relevant issues are overlooked in these studies. As noted earlier, allocations within the sectors are widely considered to be important in explaining changes in social indicators, but these studies typically sidestep this issue. In fact, Ogbu and Gallagher (1991)\(^\text{25}\) find in a study of 5 African countries that enrollment rate are affected by the composition of public education spending. And in a survey of 10 country studies, Mehrotra (1998)\(^\text{26}\) concludes that high education attainment is associated with relatively high public spending on education and a relatively high share of primary education in total education expenditures. Unfortunately, neither paper supports its claim about the efficacy of public spending on basic education with statistical analysis.

Filmer, Hammer, and Pritchett (1998)\(^\text{27}\), attempt to address the issue of allocations within the health sector by including a measure of government spending on primary health care in their cross-section analysis of the causal factors of infant mortality. As it turns out, they fail a statistically significant impact of primary health care spending on infant mortality rates. But their aggregate health sector data are not necessarily consistent with either the overall fiscal or the intra-sectoral data. Measurement errors may have been further exacerbated by the use of statistical techniques to create imputed values for missing observations.

The present work is, therefore, an attempt to shed some further empirical light on the issue of public expenditure’s ability to promote human development by focusing on the experience of an under-developed economy of Indian Federation, namely the one of Meghalaya.
1.3 Problem Formulation

It is against this background an attempt will be made in this study to look into the intricacies of the growth of public expenditure vis-à-vis the pace of human development in Meghalaya. Meghalaya is comparatively a backward state, where agriculture is the predominant sector providing means of livelihood to more than 65 percent of the population. Although certain significant developments have taken place in some spheres in the state since its attainment of Statehood, the access to opportunities for a ‘reasonably minimum’ standard of living is one of the lowest in the country. The developmental efforts of the state have resulted in a paradoxical growth, where the exponential growth of the state income stays at 12.61 percent level and that of public expenditure at 14.68 percent. This particular trend indicate that high exponential growth rate of public expenditure has not provided enough stimuli to the state income to grow at a steady desired level. This, we believe might have been due to the failure of the public expenditure programmes to address themselves to the right set of objectives that fiscal policy accords. Thus, it is observed that phenomenal growth of public expenditure in the state of Meghalaya without a corresponding growth in State income has brought about an explosive growth of public expenditure in the state. The observed trend has no doubt culminated in form of low level of per capita income in the face of a rising population and deteriorating economic conditions of the people. This evident from the relative rank of Meghalaya in poverty which deteriorated from 14th position in 1983 to 27th position in 1999-2000. A closer scrutiny of Meghalaya’s fiscal scenario exhibits rising trends of public expenditure on the social services followed by the general and economic services. The exponential growth rate of total public expenditure on the social services during the period 1984-85 to 2004-2005 stayed at 15.93 percent where as the corresponding exponential growth rate for general services and economic services stayed at 15.78 an 13.41 respectively. If public expenditure on social services will presumably be taken to reflect public expenditure on human capital then experiences of the state negate the above functional relationship as economic backwardness coupled with a reasonable degree of
poverty make its presence felt in the state. Further, the disproportionate growth of the social sector has not only absorbed most of the public investment fund over the years, but also has given rise to a weaker linkage between the different sectors of the economy.

Ultimately, we believe, it is the size of public expenditures that the community looks to. No doubt, public passions about the levels of public expenditures run high. But underneath the policy controversies, a vital question about the actual behaviour of the quantum of public expenditures and its impact on human development awaits dispassionate analysis. This is, what we intend to study in this present work.

1.4 Objectives

The study covers a period of twenty years from 1984-85 to 2004-2005. This is a period during which the state economy has witnessed substantial changes in expenditure policies. Further, during this time period, there were some recurrent social tensions, which we believe might have led to substantial changes in the public expenditure policies. However, we will not examine in details the social tension aspect of the public expenditure problem due to limited scope and objective of our study. Keeping these general problems in view, an attempt was made in this work to study in detail the following aspects of state’s public expenditure and its effect on human development of the state. The specific objectives of the study are spelt out as follows:

1. To analyse the link between per capita public expenditure on the health and education and Human Development Index (HDI).

2. To examine if public spending on education and health has a stronger impact on human development than the growth of per capita income.

3. To examine the extent to which public expenditure on social services increase with the rise in the State Domestic Product.
1.5 Hypothesis

1. There is a positive functional relationship between per capita public expenditure on health and education and Human Development Index (HDI).

2. The impact of public spending on education and health on human development is stronger than that of the growth of per capita income.

3. Expenditure on social services has a tendency to increase with rising SDP.

1.7 Data and Methodology

The relevant statistical data for twenty years from 1984-85 to 2004-05 had been collected from the annual budgets of the Meghalaya State Government, including their Memoranda, other Government publications as well as unpublished works and various issues of UNDP Human Development Reports as well as Government of India Human Development Reports. The methodology that had been adopted for this study is both descriptive and analytical, and appropriate techniques was used to estimate the trends in public expenditure on health and education, which are considered to be the most important indicators of human development. The relevant data collected had be analyzed by the help of suitable statistical techniques and the results obtained is subjected to economic logic. The model is specified with per capita expenditure on health and education and per capita income as regressors. We have used the following equation to evaluate the impact of public spending on education and health care.

\[ Y_i = f(X_{1i}, X_{2i}, Z_{ij}) \]
Where $Y_i$ is a social indicator reflecting education attainment or health status for a state i, which is a function of aggregate public spending on education or health care as a share of GDP, $X_{1i}$, allocation to different programmes within the sector (i.e., primary education and primary health care) as a share of total sectoral spending, $X_{2i}$, and a vector of socio-economic variables $Z_i$.

### 1.8 Chapter Plan

The topical analysis of the thesis is as follows. For the purpose of expositional covering and systematic analysis, the thesis has been divided into six chapters.

The first chapter is an introduction in nature. In this chapter we have dealt with understanding the deeper meaning of human development. We have also identified the various indicators of human development which have helped us in understanding the intricate relationship between these indicators, viz: public expenditure on education and health and per capita income, and human development.

This Chapter is an attempt to review some of the important works carried out by various researchers on the stance of Public expenditure and human development. An attempt has been made in this section to discuss the major conceptual and empirical issues relating to the causal effect relationship between the growth of public expenditure and the pace of human development.

In chapter three we have examined some of the theoretical issues related to public policy stance and human development. This chapter is concerned with the arguments for public policy stance, in terms of expenditure as the key instrument. Further, this chapter also, assesses the theoretical and empirical advancement towards public policy intervention in providing human development which reflects the community’s growing concern with social aspects of development and where education
and health have occupied the centre stage.

Chapter four is divided into three sections. Section-I is concerned with the growth and pattern of public expenditure in Meghalaya. An attempt has also been made to analyze the growth of Gross State Domestic Product and the per capita income of the state for the entire 20 years covered by our study. In this section we have also carried out a brief analysis of the growth of public expenditure consequent upon the growth of Gross State Domestic product in order to know the extent to which Meghalaya’s public expenditure is responsive to the state income. Section-II on the other hand, deals with the growth of public expenditure, particularly, on education and health since these are regarded as the two most important indicators of human development. In this section we have again tried to analyze the growth of expenditure on education and health consequent upon the growth of the total public expenditure of the state. Section III examines on whether expenditure on social services such as education and health rises with the increase in the Gross State Domestic Product in Meghalaya.

Chapter V is an attempt to specify the methodology and to carry out the empirical analysis. The chapter is divided into three sections. Section I is an attempt to spell out the various components of the HDI such as literacy rate of the state of Meghalaya and the infant mortality rate, which reflects the level of human development. The purpose of the section is to have a comparative picture on the growth rate of the public expenditure on health and education and the various components of Human Development for the state of Meghalaya. In Section II, an attempt is made to specify the models for undertaking the empirical analysis and the results obtained by using the specified models are reported subsequently. Section III is an attempt to analyze the trend of public expenditure in basic social sector in Meghalaya and also to find out the four government expenditure ratios, viz., the Public Expenditure Ratio (PER), the Social Allocation ratio (SAR), the Social Priority Ratio (SPR), and the Human Expenditure Ratio (HER) as according to norms laid down by the UNDP’s Human Development report 1991.
Chapter six gives us the summary of our study and thus arrives at the conclusion and followed by some policy prescriptions.
References


27. Ibid., p.6.