CHAPTER - III

THEORETICAL ISSUES RELATED TO PUBLIC POLICY STANCE AND HUMAN DEVELOPMENT
3.1. Introduction

The studies on the level of public expenditure and human development as reviewed in the last chapter have several weaknesses in them. Moreover, we have observed that most of the studies on the level of public expenditure and human development are merely empirical exercises and the limitation of these studies can be ascertained in terms of their failure to translate these empirical underpinnings into theoretical foundations. In addition, we may be tempted to mention here that in most of the studies on the level of public expenditure and human development, the choice of variables has been largely inductive i.e., on the basis of additional explanation provided by the variables rather than on the basis of a priori reasoning. As such, these studies have provided spurious explanation to their model adding very little to the understanding of the level of public expenditure and human development. Keeping these limitations in mind, an attempt is made in this chapter to provide the conceptual clarification to the public expenditure stance on human development.
3.2. Public Expenditure Stance on Human Development

There are various theoretical issues that are related to public policy and human development. Theoretically, there are six reasons why public policy stance should promote human development. First and above all, human development is an end itself, which needs no further justification. Second, it is a means to higher productivity. Third, it reduces human reproductively, by lowering the desired family size. Forth, human development is good for physical environment; that the impact of population growth and population density is detrimental for environment due to deforestation, desertification and soil erosion. Fifth, reduced poverty contributes to healthy civil society, democracy and greater social stability. Sixth, it has politically appeal, for it may reduce civil disturbances and increase political stability, (Streeten, 1994).1

Arndt (1998),2 states that the arguments for public policy stance, in terms of expenditure as the key policy instrument, rest on the fact the functioning of the market cannot, by itself, activate the signalling, response and mobility of economic agents to achieve efficiency in both state (allocative efficiency) and dynamic (shift in the production frontier) terms.

The theoretical and empirical advancement towards public policy intervention in providing human development reflect the community’s growing concern with social aspects of development; steel, mills, dams and machine building industries have now been displaced from the commanding heights of development strategy, instead so-called soft sectors such as education and health have occupied the centre stage. Certain public goods such as defence, administration, clean environment etc that cannot be provided by market, because no consumer will be excluded once these services are provided and hence consumers will not 'buy' these services, (Mundle 1998)3.

The essence of human resource development becomes one of ensuring that the
work force is continuously adapted for an upgraded to meet the new challenges of its total environment. This implies that those already on the job require retraining, reorientation or adaptation to meet new challenges. As, Yesufu (2000) and Adamu (2003) argue that this special human capacity can be acquired and develop through education, training, health promotion, as well as investment in all social services that influenced man’s productive capacities.

It may be mentioned that orthodox measures of well being, such as growth of GDP per head or by some distribution-corrected value of GNP per head, used in empirical literature have inherent limitations in capturing wider aspects of well being and the contingent process of development. The genesis critique of the use of GNP per capita for measuring the level of development in various countries can be traced back to the United Nations Report, 1954, in which specific recommendations were made against the use of this indicator as a measure of human development. Subsequently, a formidable array of literature followed since 1970s in support of this proposition and argued for construction of indices based on socio-economic indicators for measuring development. Noorbakhsh (1998), Hicks and Streeten (1979), Morris (1979), Adelman and Morris (1967), UNRISD (1972). In the seventies, the concept of "basic needs" became the central core of the debate on human development policies (Hicks and Streeten, 1979).

Empirical evidence shows that in a semi-logarithmic framework of regressing proportionate shortfalls of life expectancy against per capita GDP, reveals that nearly half of the variations in the expectancy could be attributed to differences in GNP per head. In this context, it is important to note that the substantial impact of higher GDP per head on life expectancy and other social outcomes of better literacy level, low mortality rates among children and better schooling among children seems to work via factors in which public policy stance play a significant part, (Dreze and Sen, 1995).
As, Sen and Karmakar (2005)\textsuperscript{12} argues that it is the human development sectors, which are overlapping substantial with the social services, are primarily in the domain of the states in terms of the constitutional assignment of functions in India.

Therefore, in the urgent and substantial task of raising the level of human development of their citizens, the basic challenge faced by most of the states of India is to break the 'vicious circle' of poverty, low human development and low income. Low levels of income across the population also limit the ability of the state governments to finance human development through their own resources. This is clearly indicated by the strong association between public expenditures and per capita incomes often noticed by researchers, both across states and over time. Moreover, within the framework of fiscal responsibility legislation which has been enacted by the centre as also several States (after the strong support it got from the Twelfth Finance Commission), it is not feasible to vigorously push for public expenditures financed by deficits, and consequent borrowings. Over and above this constraint, for most of the states a large part of budgetary expenditure consists of committed expenditure of some sort or the other (salaries, interest payments, loan repayments and other contractual payments). Given that in the short and even in the medium term most of these expenditures cannot be reduced drastically and that the macroeconomic performance cannot be suddenly improved through action at the state level alone, an important method of managing resources to finance consistent and balanced human development lies in the reprioritization of current expenditure in accordance with the urgent needs and shortfalls in particular areas.

The public provision of education and health care may be considered using rights-based and needs-based approaches. Owing to the limited resources of Governments in developing countries, the universal provision of education and health care is almost impossible. However, basic education and primary health care command general support under a rights-based approach. The public provision (free or subsidized) of other education and health services should respond to the needs of marginalized and disadvantaged groups. Huge financial resources are needed in most countries of the
region to expand education and health services and improve their quality. Shifting resources from low-productivity sectors, such as defence and general administration, to education and health can go some way towards meeting the need.

Expenditures on education may affect health and parental education may benefit children. Health expenditures may themselves affect the value of education. These links are important for understanding the potential range of benefits which accrue to expenditures on human capital (Appleton and Teal, 1998).

The dominant view in economic literature is that Government must play a role in correcting market failures in the area of allocation of resources over time, because of the ‘myopic’ nature of market participant, four decades of development experience world over has shown that there can be “government failures” as well, resulting not only in economic losses due to misallocations of resources arising from faulty investment decisions but also from diversion of resources to rent seeking activities because of the very regulations themselves, (Ramji, Suresh and Srinivasan, 2000). It is possible to analyse economic policy formulation and implementation in India, in terms of the changing boundaries of state and market, and the emerging new balances as a result of Economic Reform. Economic activity from a functional point of view classifying state into (a) Producer state —Producing commercial goods and services. (b) Regulatory state setting and enforcing rules that encourage or discourage economic activities of market participants. (c) facilitator state — providing public goods such as police, judiciary, roads etc. and (d) Welfare state providing a wide variety of merit goods such as education and health services.

Oriakhi (2006) argues that in spite of the huge funds allocated and seemingly expended by the Federal, State and Local Governments in Nigeria towards the provision of educational, health and other infrastructural facilities, satisfactory service delivery remain a mirage.
The dearth of these basic and essential services initiates formidable challenges to sustainable human development. Education indicators such as primary enrolment ratio, pupil-teacher ratio, and secondary and tertiary enrolment ratios are not improving. Also, health indicators such as life expectancy, infant and maternal mortality rates, and the ratio of population per physician are all worsening. Probable factors identified as constraints to adequate service delivery at sub-national levels of government include; the mismatch between expenditure assignments and sources of revenues, lopsided vertical allocation formula which favoured the Federal Government, rent seeking and outright theft, inadequate institutional guidelines (constitutional and budgetary) and ineffective monitoring of the public expenditure process.

The most significant challenges to improving health system performance in developing countries are weak public sector management, particularly at the district or municipal level. Most of the empirical analysis (Gottret and Schieber, 2006) support direct correlations among the quality of policies and institutions, absorptive capacity, and the country’s ability to improve certain health outcomes through increased government health spending. Several tools have been developed to improve public sector management.

Caldwell (1986) believes that the core social targets relate to mortality, education, and gender gaps in school enrolments. Achieving these targets is an important end in itself. The capacity to live a healthy life and to read and write enhances human capabilities; at the same time, eliminating differences in education between men and women improves social justice (though it may sometimes conflict with cultural norms).

Taking the clue from the above argument, it can be argued that there are also two-way relationships between human capabilities and social and economic change. Economic advance can cause social progress, notably through increased public and private spending out of rising income on factors that improve social conditions. Better health and education can also raise productivity. Most important, there are critical
interrelationships between social conditions: better education for women has a powerful influence on improving child health and reducing fertility, independent of income.

Demery and Walton (1998) are of the opinion that public spending is central to the “20–20” initiative, for example, that proposes that at least 20 percent of government spending and donor support should go to spending on basic services such as primary health, primary education, and clean water. Rising incomes underpin increased public and private spending on education and health. Increased education for women increases household investments in children. But surely a case exists for increased discretionary spending by governments and donors. While most practitioners believe this, the evidence is more ambiguous: public and societal actions can make a major difference to social outcomes, but the answer does not lie in increased spending alone. Improving the policy and institutional framework for social service delivery and use is often of equal or greater importance.

It may be mentioned here that in an environment of low growth and increased attention devoted by both the authorities and the public to government spending, the efficient allocation of resources in such growth promoting items as education and health seems of paramount importance, (Afonso and Aubyn, 2004). Furthermore, and in what concerns the health sector, there is a genuine concern that for most OECD countries public spending in healthcare is bound to increase significantly in the next decades due to ageing related issues. Again, and since most of expenditure on healthcare comes from the public budget, how well these resources are used assumes increased relevance.

The strategy that has proved effective in improving economic and social wellbeing consists of three elements, (Ababa, 1996): labour-demanding growth, investments in education and health and safety nets for poor and vulnerable groups. Increasingly, a fourth element -- good governance -- is being added, because 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. Beyond that, the most important attributes of good governance are accountability, transparency, and participation. Participation, for example, increases stakeholders' ownership of policies and projects -- which contributes to their willingness to share costs and maintain the assets created. Such involvement in turn raises the quality and sustainability of development programmes and helps to build local capacity.

Higher public spending on health as a share of GDP, is said to be very tenuously related to improved health status, (Filmer and Pritchett, 1997). The observed efficacy of public spending is several orders of magnitude lower than the apparent potential. The correct interpretation of the empirical results and their policy implications depend on three factors, cost effectiveness of public spending, the net impact of additional public supply, and public sector efficacy. Each can explain the observed results and almost certainly each contributes to explaining the low typical efficacy of actual public spending.

In recent years, some studies have pointed out that, poor expenditure on health sector in most developing countries is worsened by an inverted nature of health expenditure pyramid. About three-quarters of all public expenditure on health are for expensive medical care that benefits a small minority of the population living in the urban areas, (Griffin and McKinley, 1992). A high proportion of the budget for health, 80 to 90 per cent in some countries, is spent on hospitals, almost all of which are located in the cities. At the same time, only about 60 per cent of the people have access to primary health care. A high proportion of the poor, and of those living in rural areas, is not reached by the health care system and is forced to rely on home remedies and traditional medicine. Therefore, the case of public expenditure proceeds from market failures of one kind or another, (Rao, 1998).

It is believed that under many situations, markets fail to secure appropriate signals, responses and mobility because: (i) not all goods and services are traded. Markets cannot determine the prices of public goods; (ii) goods exhibiting externalities in
consumption and production force a wedge between market prices and social valuation and the market will not ensure a socially desired supply; (iii) some goods are characterized by increasing returns to scale. In case of such natural monopolies, society can gain from lower prices and higher output when the public sector is the producer or a subsidy is paid to the private sector to cover the losses of producing optimal output; (iv) information asymmetry between the providers and consumers of services such as social insurance can give rise to the problems of moral hazard and adverse selection; and (v) state intervention is necessary also for securing income redistribution.

3.3 Concluding remarks

Based on the above arguments, we may be tempted to argue that public spending on social services particularly on health and education has a strong impact on the level of human development. The substantial impact of higher GDP per head on human development seems to work but even it happens via factors in which public policy stance play a significant part.

Further, the array of literature in favour of social indicators to measure human development has resulted in the collation of data on a spectrum of socio-economic indicators across countries, which has inevitably resulted in the attempts to construct the composite indices of human development.
References:


