

Concern for the ‘Aam Admi’ – was it met in the Budget

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Finance Minister presented the budget for 2008-09 in an environment of growing recognition that the poor have been left behind in the mad race of high economic growth and getting rich quick. According to the Planning Commission’s Approach Paper for the XI Plan, there has been a sharp increase in unemployment (from 9.5% in 1993-94 to 15.3% in 2004-05) among the agricultural labour households. The NFHS III survey of the Ministry of Health showed that despite high economic growth of eight per cent every year, malnutrition in the age group 0 to 6 years has declined only by one percentage point in the last eight years. The prevalence of child undernutrition in India is among the highest in the world, nearly double that of Sub-Saharan Africa, with dire consequences for morbidity, mortality, productivity and economic growth. Many developing countries which are poorer than India seem to be doing much better on the social front as shown below.

		India	Bangladesh	Myanmar	Vietnam	Bhutan
Infant Mortality Rate per 1000 births	1990	82	100	91	38	107
	2006	57	52	74	15	63
Underweight children under 5		46	48	32	25	19
Immunized against measles		59	81	82	93	90
Rural population with adequate sanitation		22	35	72	50	70
Ratio of girls to boys in schools (%)		88	105	101	96	87
Global Hunger Index ¹		25	28	16	18	na

(Based on information on the World Bank, Unicef & IFPRI websites)

Social sector outlays

One of the reasons for pathetic progress on social indicators is inadequate allocation. Way back in 2004 the Common Minimum Programme of this government had announced its intention to increase the public spending on education to 6% of the GDP and on health to 2-3 percent of GDP, but there has been hardly any serious effort in the five budgets presented so far to move towards the announced targets. Overall expenditure on education and health has stagnated at about half the desired levels.

The central government may congratulate itself in increasing the outlays for social sector in the central budgets, but more than 80% of expenditure on these sectors is borne by the states, and unless they too fall in line, additional central allocations do

¹ Based on three equally weighted indicators: the proportion of undernourished as a percentage of total population, proportion of underweight children under five; and the under-five mortality rate.

not change the picture. Table below shows how expenditure on education and health as percentage of total expenditure has stagnated or even fallen in the states in the last eight years.

Expenditure on education and health as % of total expenditure (all states)

Year	Education	Health
2000-01	17.4	4.7
2001-02	16.1	4.4
2002-03	15	4.1
2003-04	12.6	3.5
2004-05	12.7	3.5
2005-06	14.2	3.9
06-07 (RE)	14.2	4.1
07-08 (BE)	13.9	4.1

(RBI website)

One expected that the current budget of the UPA government would show some upward movement in allocations for the social sector, but it disappointed us and did not fulfil the promises made in the CMP.

NREGA

Allocations under wage employment schemes have not only been grossly inadequate, but have actually fallen. In 2005-06, that is, before the introduction of NREGA, when each worker was being given 5 kg of foodgrain per day as part of the wages, the RE figure for wage employment works under the Ministry of Rural Development was Rs 10200 crores excluding Rs 1500 crore meant to cover the cost of food component. According to the bulletin of the Ministry of Consumer Affairs, Food and Public Distribution for the month of November 2007, offtake of foodgrains from Central Pool in 2005-06 for wage employment schemes was as follows:

Scheme	Rice	Wheat	Total economic cost ² in crore Rs
	in lakh tonnes		
SGRY	24.21	15.71	4878
SGRY (spl. Component)	7.44	9.82	2021
National Food for Work Prog.	6.59	4.08	1307
Total	38.24	29.61	8206

Thus the overall cost borne by the central government for running wage employment programmes in 2005-06 came to 10,200 plus 8206 = Rs 18,406 crores.

The foodgrain component of SGRY has now been vastly reduced, and there is no such component in NREGA. In 2006-07 the total foodgrain released for wage employment

² Economic cost of rice and wheat for 2005-06 per tonne was Rupees 13,373 and 10,444 respectively.

schemes was only 24 lakh tonnes as compared to 68 lakhs in the previous year. This has further come down to only 7.3 lakh tonnes in the current year (upto Nov 2007), and may not even reach 15 lakh tonnes by the end of the March 2008.

Converting these figures into cash would imply that the total expenditure by GOI on wage employment schemes came down from Rs 18406 crores in 2005-06 to Rs 16,117 crores in 2006-07, and close to Rs 15,000 crores in the current year.

The allocation of Rs 16,000 crores for 2008-09 even at current prices does not match what was already being spent in 2005-06 on the scheme. If inflation is taken into account the allocation for 2008-09 is less than what government spent in 2005-06 by at least 30%!

No wonder the legal guarantee of 100 days wages, according to CAG, has been fulfilled in only 3% of the cases. According to a recent press note by the Ministry of Programme Implementation and Statistics on 'Employment and Unemployment Situation in India: 2005-06', among the persons of age 15 years and above in the rural area, only 5 per cent got public works, 7 per cent sought but did not get public works.

Thus the introduction of NREGA has actually reduced Government's financial liability to support wage employment. No wonder GOI is so keen to extend NREGA throughout the country, not taking into account that about one-fourth of the districts in India (many in north-west India, Himachal, Uttarakhand NE, and Kerala) are labour scarce districts! Wage-employment programmes should not be run in these districts, where wage rate is already high and where unskilled labour comes from other regions. Such districts should be offered more funds for other programmes, including irrigation and rural infrastructure. Reckless expansion will only promote migration and fudging of documents.

From outlays to outcomes

Enhanced allocations, howsoever vital for the social sector, are not sufficient to improve India's performance on MDGs. FM in his 2007 speech rightly said that 'There is no dearth of schemes; there is no dearth of funds. What needs to be done is to deliver the intended outcomes.'

How is outcome delivered in the states? By falsifying records! Sachin Pilot while trying to understand how ICDS functions in the districts observed (Economic Times 11th Feb, 2008):

'we discovered that all data of children at the centre for the past five months, weight, vaccinations, health records etc, were filled in with pencils. On probing further, I found it was done so that in case of an official inspection, the figures could be erased and "correct" data inserted to make the centre's performance look good!'

The practice is so widely prevalent in all the states, presumably with the connivance of senior officers, that the data reaching GOI³ shows only 8% as the overall percentage of malnourished children in case of 0-3 years (with only one percent children severely malnourished), as against 46% reported by NFHS-3. What is equally astonishing is the fact that records show a steep decline in the percentage of malnourished children from 29 to 8%, which is totally at variance with the findings of the various NFHS surveys. By sending bogus reports the field officials are thus able to escape from any sense of accountability for reducing malnutrition.

³ according to a recent study by NIPCCD (National Institute of Public Cooperation and Child Development)

The CAG found similar discrepancies in record management in its study of the NREGA. In 282 GPs in 21 States, dated receipt of applications for demand for work were not given, and in 343 GPs in 19 States, Employment Registers were not maintained. In the absence of recorded date of demand, the entitlement to unemployment allowance could not be easily established.

In Orissa, no budget provision was made by the State government for payment of unemployment allowance. Resultantly, in 12 test checked blocks, no unemployment allowance was paid to 5143 registered households who were not provided with employment during 2006-07 despite demanding the same. In Uttar Pradesh, in four of the six districts covered in audit, 40,587 households demanding employment were neither provided employment, nor was any unemployment allowance paid to them.

The CAG's overall conclusion was that systems for financial management and tracking were deficient, with numerous instances of diversion and misutilisation. As against the government claim of 43 days, CAG's finding was that the average employment provided to each registered household was only 18 days in test-checked GPs.

It is not the size of allocations on pro-poor services alone that matters. Government of India transfers more than three and a half lakh crore Rupees every year to the states. If even half of it was to be sent to the six crore poor families directly by money order, they would receive more than 50 Rupees a day! It proves that public expenditure needs to be effectively translated into public goods and services that reach the poor for it to have an impact on poverty and social outcomes. Unfortunately different kinds of distortions can come in the way of resource allocations reaching the intended beneficiaries. There is enough evidence to show that government's capacity to deliver has declined over the years due to rising indiscipline and a growing belief widely shared among the political and bureaucratic elite that state is an arena where public office is to be used for private ends. Weak governance, manifesting itself in poor service delivery, excessive regulation, and uncoordinated and wasteful public expenditure, is one of the key factors impinging on development and social indicators.

Rural distress & Agriculture

According to a recent press note of the National Sample Survey Organisation on consumption and employment from the 62nd survey, as many as 19 per cent of Indians in 2005-06 living in rural areas belong to households which cannot afford to spend more than Rs 12 a day per person on consumption, and in the towns and cities as many as 22 per cent belong to households where the daily per capita expenditure is less than Rs 19. Such abysmal levels of consumption are surely linked to the very low wage rates. In rural India, the average daily wage of casual labour in 2005-06 was Rs 59 for men and Rs 38 for women; in urban India the rates were Rs 81 and Rs 45, respectively – in both areas below the statutory minimum. The pattern is unrelenting in all aspects of the quality of life. In India's villages, 50 per cent of families live in kutchra or semi-pucca homes, 74 per cent of households still use firewood for cooking and 42 per cent are forced to depend on kerosene for lighting their homes. 'So much for life in a high-performing economy. In sum, the economy seems to be doing fine, it's just the people that aren't' (EPW 11Feb 2008).

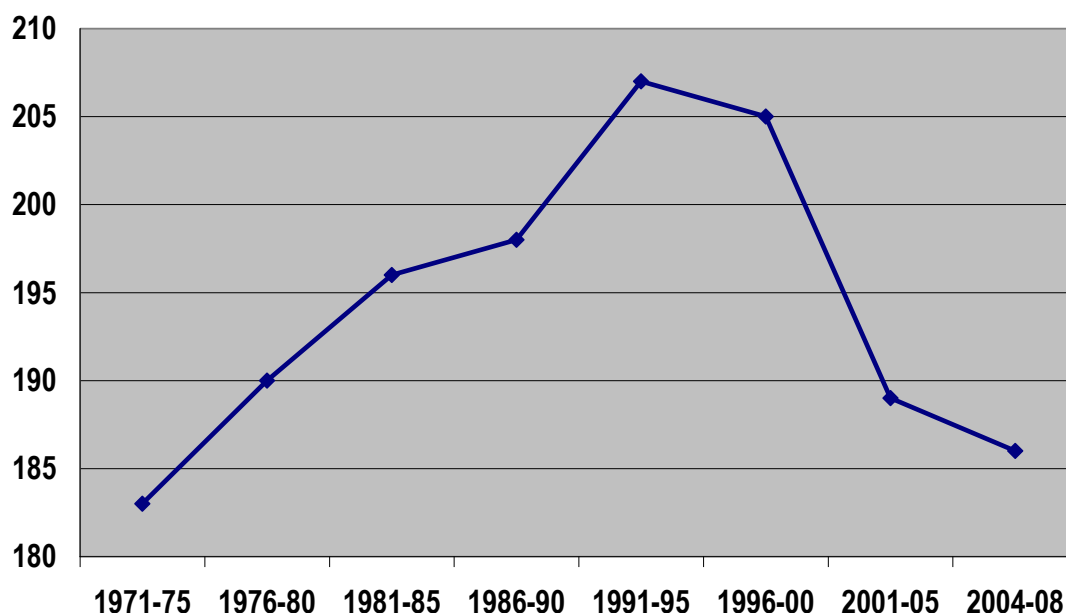
A recent UNDP survey (known as PAHELI) of Gajapati district in Orissa showed that 22% people in the district did not get two meals a day and 60% women survived only with one or two sets of clothes, and yet 36% of the families did not own a BPL or

Antyodaya (AAY) card. In fact in the entire country only about half of the poor have BPL/ AAY cards, whereas 17.4% of the richest quintile have managed to get the BPL/AAY cards, as shown below.

% of HH that possess ration card 2004/05 (NSS 61st round)				
	Any card	BPL card	APL card	AAY card
Poorest	77.3	44.2	28.2	4.9
Q2	81.6	40.5	38.4	2.7
Q3	83.3	40	41.6	1.8
Q4	84.9	30.5	52.7	1.7
Richest	87.5	16.8	70.1	0.6

The increase in rural distress is primarily because both per capita foodgrain production and agricultural production has fallen rapidly since 1996.

Per Capita Production of Foodgrains (in kg)



According to the MTA, X Plan, within the crop sector, only fruits and vegetables, condiments and spices and drugs and narcotics continued to grow at over 2.5 per cent per annum. Excluding these, growth rate of output of remaining crops fell below 0.5 per cent per annum after 1996-97 as compared to over 3 per cent earlier. Assuming population rose by 1.7% during 1996-2005, this amounts to a decline of 1.2% per capita per annum in crop production.

According to the recent Economic Survey released by GOI, the consumption of cereals in India declined from a peak of 468 grams per capita per day in 1990-91 to

412 grams per capita per day in 2005- 06, whereas the consumption of pulses declined from 42 grams per capita per day (72 grams in 1956- 57) to 33 grams per capita per day during the same period. The decline for the bottom 50% would have been even sharper than the average.

Interventions in the budget

The UPA government has surely increased the plan allocation for agriculture several times, and introduced some new schemes but its impact on increased agricultural production or on reduced rural distress will still be marginal. As observed by Sainath, disastrous policies, woeful access to affordable credit, greedy and corrupt middlemen, and indifferent administrations are among the factors that have pushed farmers to their breaking point.

The number of rural bank branches has come down, and farmers are forced to take loans at exorbitant rates from moneylenders and suppliers of inputs. Little relief has been announced in the budget on loans from ‘informal’ sources. It may be recalled that the Radhakrishna Committee appointed by the Finance Ministry on rural indebtedness had in July 2007 suggested the creation of a “Moneylenders Debt Redemption Fund” under which banks will finance a one-time repayment of loans to moneylenders in identified districts under distress. The Finance Minister while announcing a huge loan waiver scheme for the lucky ones who obtain loans at a low interest of 8 to 12% from banks and cooperatives has given no such relief to the unfortunate farmers who obtain loans from informal sources at an exorbitant 50 to 100% rate of interest.

Controls over water

By providing farmers with electricity at flat rather than metered rates, and eventually for free, successive state governments across India let loose a chain of events with serious long-term consequences for depletion of groundwater. The successive budgets in the last four years have given many doles to farmers, but did little to control excessive mining of groundwater, leading to a situation where shallow wells that were a source of water for small farmers have gone completely dry.

Water famine – how real?

During the summer months of April-May 2000, the Maharashtra Government was supplying drinking water through tankers in about 3000 villages, many of these had a standing and well-irrigated sugarcane crop. Thus groundwater that should have been a community resource was being monopolized by a few rich farmers, who also took advantage of easy availability of two other scarce resources – electric power and capital. The responsibility to provide drinking water was then transferred to the State.

Mid term Appraisal of the 9th Plan, 2000, page 300

Flawed policy on agriculture

The policy approach to agriculture, particularly since the mid-1990s, has been to secure increased production through subsidies on inputs such as power, water and fertiliser, and by increasing the minimum support price rather than through building new capital assets in irrigation, power and rural infrastructure. This has shifted the

production base from low-cost regions to high cost regions, causing an increase the cost of production, regional imbalance, and increasing the burden of storage and transport of foodgrains. The equity, efficiency, and sustainability of the current approach are questionable. The subsidies do not improve income distribution or the demand for labour. The boost in output from subsidy-stimulated use of fertiliser, pesticides and water has the potential to damage aquifers and soils – an environmentally unsustainable approach that may partly explain the rising costs and slowing growth and productivity in agriculture, notably in the Punjab and Haryana. Moreover, deteriorating State finances have meant that subsidies have, in effect i) ‘crowded-out’ public agricultural investment in roads and irrigation and expenditure on technological upgrading, ii) limited maintenance on canals and roads, and iii) contributed to the low quality of rural power. These problems are particularly severe in the poorer States. Although private investment in agriculture has grown, this has often involved macroeconomic inefficiencies (such as private investment in diesel generating sets instead of public investment in electricity supply). Public investment in agriculture has fallen dramatically since the 1980s and so has the share of agriculture in total gross capital formation. Instead of promoting low cost options that have a higher capital-output ratio, present policies have resulted in excessive use of capital on the farms, such as too many tubewells in water scarce regions.

The intensity of private capital is in fact increasing for all class of farmers, but at a faster pace in Green Revolution areas and for large farmers. Thus, fertilisers, pesticides and diesel accounted for a mere 14.9% of the total inputs in 1970–1 but 55.1% in 1994–5. For a large farmer in commercialised regions their contribution may have now become as high as 80%. But the proportion of output sold has increased at a much slower rate than the proportion of monetised inputs, including hired labour. The implication of this is a resource squeeze in agriculture. Whereas the need for resources to purchase these inputs has been increasing, the marketable surplus has been increasing at a slower rate to contribute to this, as the growth of non-farm employment has become very sluggish. It is not surprising that the repayment of loans is such a problem in Indian agriculture and has even led to suicides in some cases. A better strategy would be to concentrate on small and marginal farmers, and on eastern and rainfed areas where returns to both capital and labour are high. The need is also for better factor productivity in agriculture and for new technologies, which would be more labour intensive and would cut cash costs.

But a major question is whether substantial and equitable productivity gains in agriculture can be made there without significant improvement in the quality of governance in these States. However, Governance is a non-monetary issue and therefore not of concern to the budget!

Increases in 2008 BE over 2007 BE

	2007	2008	% increase
SSA	10671	13100	22.8
MDM	7324	8000	9.2
NRHM	9947	12050	21.1
ICDS	4761	6300	32.3
ARWSP	5850	6500	11.1
TSC	954	1200	25.8
Health	15855	16534	4.3
Education	32352	34400	6.3
WCD	5853	7200	23.0