

## INTERCONNECTION BETWEEN GOVERNMENT SPENDING ON SOCIAL SECTORS AND HUMAN DEVELOPMENT INDEX IN INDIA

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### ABSTRACT

Government spending on social sectors is essential for India's overall socio-economic progress, as well as for the development of individual states. The primary goal of this spending is to enhance the standard of living for citizens and to ensure the highest level of social well-being. This spending covers areas such as education, healthcare, family support, rural water supply, the development of women and children, support for Scheduled Castes, and support for disadvantaged groups, among others. This spending is increasing rapidly and consistently as the population expands. The research aimed to examine how government spending on social sectors affects the rate of economic growth and the development of human resources, considering factors like the country's Human Development Index (HDI), and its position in the Percentage of social sector spending to Gross State Domestic Product (GSDP). The main objective of this research was to explore the relationship between spending on social sectors and the development of human resources. The research's focus is on a 25-year period, 1981-2005, and includes 15 major Indian states, with secondary data also being considered. A selective approach was used, and efforts were made to understand how effectively state governments have met their objectives in human resource development. After extensive analysis in 15 major Indian states, it has been found that while spending on social sectors is crucial for human resource development, economic growth is also necessary for achieving these goals.

**Key Words:** Social Sector Expenditure, HDI, Gross State Domestic Product.

### I. Introduction

The decades of the 1950s, 1960s, and 1970s witnessed numerous developing nations reaching their economic growth targets in terms of Gross Domestic Product (GDP). Yet, the living conditions for the majority of the population remained unchanged. This situation highlighted a flaw in the narrow view of development, where GDP growth was prioritized above all else. As a result, an increasing number of economists and policymakers advocated for 'the abolition' of GDP and focused on addressing the root causes of widespread poverty, growing disparities, and rising joblessness. Essentially, by the 1970s, the concept of economic

development shifted to encompass the reduction or eradication of poverty, inequality, and unemployment, all within the context of a expanding economy.

In recent times, the concept of economic development has broadened to encompass not just the reduction of poverty, inequality, and unemployment, but also enhancements in the quality of life (QOL), which includes a cleaner environment, better education, improved health, and nutrition. The United Nations Development Programme (UNDP) has created a human development index that takes into account various aspects of QOL, such as the expansion of human capabilities and freedom. This human development index has emerged as a more dependable measure of economic development in the 21<sup>st</sup> century.

### **Social Sector Expenditure in India and HDI.**

Since gaining independence, both the central and state governments of India have been making significant investments in the development of the social sector. This sector encompasses areas like education, health, family welfare, rural water supply, the development of women and children, scheduled caste and tribe, disability, among others. It's important to look into how these extensive investments in the social sector affect the development of human resources, considering the Human Development Index (HDI)<sup>2</sup>.

### **II. Objectives of the Study**

The primary and significant goals of this research are outlined as follows:

1.To analyze the hierarchy of Indian states based on their Human Development Index (HDI).

To evaluate the hierarchy of Indian states concerning their spending in the social sector and their economic growth rate as per the National Socio-Economic Development Plan (NSDP).

To explore the connection between spending in the social sector and Human development.

### **III. Database and Research Methodology**

This study primarily utilizes existing secondary data. The required information has been gathered from various sources, including: Reserve Bank of India: Monthly Bulletin, which covers financial matters of states. RBI: Report on Currency and Finance: Vol. I & II, which includes reports from the Reserve Bank. RBI: Handbook, a comprehensive guide. Government of India, Ministry of Finance, Indian Economic Statistics, Government of India, Economic Division, Annual Economic Survey, Directorates of Economics and Statistics from state

governments, Central Statistical Organizational (C.S.O), and Planning Commission's publications.

Similarly, government publications such as reports, books, and journals were also consulted and properly cited whenever they were referenced in the document. The study focuses on 15 major states, with a total of all states being considered. The timeframe for this research spans from 1981 to 2005, with data from after 2005 also being incorporated. The analysis methods employed include ratio analysis, growth rate, ranking, and variation.

### Concept of HDI

The increase in Gross National Product (GNP) or average income per person, as a way to gauge economic progress, is not a reliable or suitable gauge of the social and economic health of a nation's citizens. Thus, there arose a necessity to develop an index that could genuinely and precisely assess the economic prosperity and well-being of a country. As mentioned in the Human Development Report 1997, 'While income is clearly a desired aspect of life, even though it holds significant importance, it represents only a fraction of one's existence. Income serves as a tool, whereas human development represents the ultimate goal. The Human Development Index is a combination of three key areas that contribute to a high quality of life and well-being. Three key questions were posed regarding the elements of a fulfilling and cherished life, and the responses were:<sup>3</sup>. The answers were:

- i. People want to lead a long and healthy life.
- ii. They want to be educated and to acquire knowledge.
- iii. They want to have access to resources, so that they enjoy a decent standard of living.

The idea of human development has gained widespread recognition among economists, including the esteemed Dr. Mahbub-ul-Haq and the Nobel Prize winner Dr. Amartya Sen. Dr. Sen describes human development as the expansion of human potential and their overall well-being at its core. Yet, no matter the stage of human development, there are three essential decisions individuals face: to live a long and healthy life, to gain knowledge, and to have access to the means for a high standard of living. However, human development encompasses more than just these decisions; it also includes other important choices valued by many, such as political, economic, and social freedom, chances to be innovative and productive, and the satisfaction of self-worth and human rights.<sup>4</sup> From this, it's evident that within the framework of human development, Prof. Amartya Sen encompasses social, economic, and political liberty,

along with the human rights they possess in a nation. Consequently, the most recent Human Development Report evaluates and measures the countries' performance concerning these matters of freedom and human rights, in addition to the three criteria or indicators listed below.<sup>5</sup>

- i. Life expectancy at birth, a measure of longevity, indicates the potential lifespan of a newborn baby in this world.
- ii. Knowledge is assessed through the weighted average of adult literacy rates and the average number of years spent in school. This is divided into 2/3 for adult literacy and 1/3 for schooling.
- iii. The standard of living is evaluated by the real income per person in a country, adjusted for the buying power of various currencies. Two things must be noted in regard to Human Development Index (HDI). First, it measures relative and not absolute level of Human Development.

#### IV. Discussion

**Table No. 1: Social Sector Expenditure of Major States In India (as percentage to GSDP).**

	State	1980-85	Rank	1985-90	Rank	1990-95	Rank	1995-2000	Rank	2000-05	Rank	Cumulative Average Score	Rank
	1	2	3	4	5	6	7	8	9	10	11	12	13
1	Kerala	7.6	1	9.2	1	7.9	4	7.8	4	6.7	7	3.4	3
2	Punjab	4.8	12	5.7	12	4.7	14	4.3	13	4.3	13	12.6	12
3	Tamil Nadu	6.4	5	7.8	7	7.8	5	6.7	8	6.4	9	6.8	6
4	Maharashtra	4.9	11	6.6	9	5.7	12	5.3	12	5.6	10	10.8	10
5	Haryana	4.4	13	5.5	13	4.9	13	5.1	14	4.5	12	13	13
6	Gujarat	5.3	10	7.1	8	6.0	11	5.7	11	6.5	8	9.6	8
7	Karnataka	5.4	9	7.8	7	7.3	7	6.8	7	6.5	8	7.6	7
8	West Bengal	5.6	7	6.3	11	6.4	10	5.9	10	5.4	11	9.8	9
9	Rajasthan	6.5	4	8.7	3	7.9	4	7.8	4	8.6	2	3.4	3
10	Andhra Pradesh	6.8	3	8.9	2	7.1	8	7.1	6	6.8	6	5.0	4
11	Orissa	7.2	2	8.5	4	9.2	1	8.0	3	8.4	3	2.6	1
12	Madhya Pradesh	5.5	8	7.9	6	7.4	6	7.5	5	7.5	5	6.0	5
13	Uttar Pradesh	4.8	12	6.5	10	6.7	9	6.1	9	6.4	9	9.8	9
14	Assam	6.5	4	8.9	2	8.8	3	8.4	2	8.1	4	3.0	2
15	Bihar	6.1	6	8.1	5	8.9	2	9.5	1	10.4	1	3.0	2
	All States (Percentage to GDP)	4.8	-	6.1	-	5.8	-	5.5	-	5.5	-	-	-

**Source :** Budget Document of S.G.

Note: States have been rearranged in the descending order on the basis of HDI value for 2001

Table No.1 displays the expenditure on social sectors as a portion of the Gross Domestic Product (GDP) for the top 15 states in India from 1980 to 2005. During the period from 1985 to 1990, the combined spending on social sectors by all states reached 6.1 percent of the GDP,

surpassing the share seen in the earlier years (4.8 percent in 1980-85 and 5.5 percent in 1990-2005). This trend is concerning for the progress of human development. The states with less developed economies have increased their spending on social sectors over time. The proportion of social sector spending to GDP in these states varies between 6 to 10 percent. It's noteworthy that states from the higher income bracket, such as Punjab (5%) and Haryana (6%), have not allocated more than 5 percent of their Gross National Product (GNP) to the social sector. This is reflected in their positions in the rankings, with Punjab (12th) and Haryana (13th) among the top 15 states in India. On average, Maharashtra dedicates only 5.5 percent of its Gross State Domestic Product (GSDP) to the social sector during the study period. On the other hand, states like Orissa, Bihar, Assam, and Rajasthan have been allocating more than 8 percent of their GSDP to the social sector. It's important to highlight that Orissa was at the top, followed by Assam and Bihar, which were tied for the third position, with Kerala maintaining its position as the leader in India for HDI. This is evident from their HDI values, which ranged from 0,250 in 1981 to 0,50 in 2005 (Table No.2).

### Human Development Index for India and Major States.

The primary goal of creating a plan is to increase the options available to individuals and improve their quality of life. The Indian government has declared that the economic strategy implemented in 1991, which focused on linearization, privatization, and globalization, aimed to boost human development. The central government requires and supports significant shifts in economic policy at the national level, which, in turn, supports similar changes at the state level. The changes in India have been categorized as economic reforms, adjustments in fiscal policy, and the reduction of government involvement in economic activities, shifting towards market-driven solutions. The government believes that economic reforms will aid India in addressing issues related to poverty and low levels of human development. The Planning Commission has released the National Human Development Report (2001), detailing the Human Development Indices for states and the country for the years 1981, 1991, and 2001, as per the National Human Development Report (2001)<sup>8</sup>.

**Table No. 2 Human Development Index for India and States**

State	HDI value 1981	Rank 1981	HDI value 1991	Rank 1991	HDI Value 2001	Rank 2001	HDI value 2005	Rank 2005	Cumulative average score	Cumulative Rank
1	2	3	4	5	6	7	8	9	10	11

1	Kerala	0.500	1	0.591	1	0.638	1	0.814	1	1.00	1
2	Punjab	0.411	2	0.475	2	0.537	2	0.679	3	2.25	2
3	Tamil Nadu	0.343	7	0.466	3	0.531	3	0.675	4	4.25	4
4	Maharashtra	0.363	3	0.452	4	0.523	4	0.689	2	3.25	3
5	Haryana	0.360	5	0.443	5	0.509	5	0.644	5	5.00	5
6	Gujarat	0.360	4	0.431	6	0.479	6	0.621	7	5.75	6
7	Karnataka	0.346	6	0.412	7	0.478	7	0.600	8	7.00	7
8	West Bengal	0.305	8	0.404	8	0.472	8	0.625	6	7.50	8
9	Rajasthan	0.256	12	0.347	11	0.424	9	0.537	10	10.25	10
10	Andhra Pradesh	0.298	9	0.377	9	0.416	10	0.572	9	9.25	9
11	Orissa	0.267	11	0.345	12	0.404	11	0.452	14	12.00	12
12	Madhya Pradesh	0.245	14	0.328	13	0.394	12	0.488	13	10.25	10
13	Uttar Pradesh	0.255	13	0.314	14	0.388	13	0.490	12	13.00	13
14	Assam	0.272	10	0.348	10	0.386	14	0.534	11	11.25	11
15	Bihar	0.237	15	0.308	15	0.367	15	0.449	15	15.00	14
	All States (Average)	0.302	-	0.381	-	0.472	-	0.612	-	-	-

**Source :** Planning Commission 2002 , National Human Development Report 2001

**Note:** States are arranged on descending order pm the basis of HDI value for 2001

Table 2 indicates that India's Human Development Index (HDI) score has steadily increased over time, starting from 0.302 in 1981, reaching 0.381 in 1991, then 0.472 in 1991, and finally, 0.612 in 2005. This progression aligns with global benchmarks, as India's HDI scores were historically low (below 0.500) until 2001. However, by 2005, India's HDI score had climbed to 0.612, placing it in the medium HDI category. In both 1981 and 1991, all Indian states had HDI scores below 0.500, with the exception of Kerala, which had a medium HDI score. Nonetheless, by 2001, four states - Punjab, Tamil Nadu, Maharashtra, and Haryana - had HDI scores above 0.500, increasing the total number of states in the medium HDI category to five. Conversely, states like Madhya Pradesh, Uttar Pradesh, Assam, Bihar, and Uttar Pradesh had HDI scores below 0.400. Looking at the relative positions from 1981 to 2001, most states maintained their rankings with a few exceptions. For instance, Tamil Nadu moved up four places from 7 to 3, while Rajasthan advanced three places from 12 to 9. Conversely, Gujarat fell from 4th to 6th, and Assam dropped from 10th to 14th. Meanwhile, Bihar, Assam, Uttar Pradesh, and Madhya Pradesh continued to occupy the lower echelons of HDI rankings.

Over the entire study period, the cumulative rankings of states show that Kerala has consistently held the top spot, while states like Punjab, Maharashtra, Haryana, and West Bengal have maintained their positions. However, Tamil Nadu improved its ranking by four places, moving from 7th to 3rd, and Rajasthan improved by three places, moving from 12th to 9th. Generally, states with stronger economies have seen better HDI scores, while economically weaker states have seen lower HDI scores. The relationship between HDI and development level is not uniform among middle-income states in India.

### III. Conclusion

Our research revealed that Kerala stood out as the sole state to achieve the top position across all three dimensions of the high value group, whereas Uttar Pradesh was the sole state to fall short in all three dimensions. Moreover, among the five leading states in social sector expenditure, none had the highest Human Development Index (HDI). This backs up our theory. Moreover, states like Maharashtra, Punjab, and Haryana boasted high HDI scores but spent less on social sectors, aligning with our theory. Lastly, Maharashtra and Tamil Nadu experienced rapid growth and maintained high HDI scores despite minimal social sector spending, indicating a beneficial link between economic growth and human development.

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