

Shyamala Gopinath: Human development and state finances - some thoughts

Speech by Ms Shyamala Gopinath, Deputy Governor of the Reserve Bank of India, at the Programme on Human Development and State Finances (jointly organised by the Reserve Bank of India and the UNDP) at the College of Agricultural Banking, Pune, 4 April 2005.

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It gives me great pleasure to be here on the occasion of the first programme on "Human Development and State Finances" being jointly organised by the UNDP and the RBI with the support of the Planning Commission. The UNDP, ever since its inception in 1965, and the other UN organisations before that, have been actively involved in the development priorities of developing countries like ours over the last five decades. They have gained insights and understanding of our economy and polity which will substantially help in achieving our goals of growth with equity, dignified life for all our people and in our pursuit of reforms with a human face.

As all of us are well aware, the Government of India is irrevocably and unequivocally committed to the attainment of the Millennium Development Goals (MDG). In fact, the progress that will be achieved by India, home to about one sixth of the world's population, will take the entire mankind much nearer to the MDG. This is because India accounts for significant proportions of the under privileged and marginalised sections of the world with almost one third of the global rural poor living in India. Yet, our economy is poised at a point of take off, where our achievements can be accelerated. I believe that we have reached a stage in our development process, wherein we have gathered critical momentum to achieve far more in the next 10-15 years than we have done in the last 55 years.

What have been the contours of Human Development? What have been our achievements in India? How is State finance related to it? Let me in the present address look into some of these questions.

Contours of human development

Let me begin with a brief look at the concept of Human Development. While doing so, I have a confession to make. I am no expert of the vast discipline concerning human development. Nevertheless, as a common citizen I believe that issues relating to human development concern us all. Hence, with some trepidation I approach the issue.

How do we measure the well being of an individual or group of individuals? It is widely accepted that a uni-dimensional measure of income does not capture the various dimensions of personal welfare or happiness. The weaknesses in the income indicators have led to use of other measures to complement the per capita income. The quest for other approaches became necessary to neutralise the information distortions in the income measure.

One of the approaches has been the Physical Quality of Life Index (PQLI) which combines three indicators, *viz.* adult literacy rate, infant mortality and life expectancy. Another approach is the 'basic needs approach' which moves from the philosophy of maximising output to minimising poverty. It argues that the basic needs of adequate nutrition, primary education, health, sanitation, water supply and housing should be available to the poorest to a reasonable extent. The Human Development Index (HDI) approach is the third and most widely used index.

The credit for popularising the Human Development approach mainly lies at the door of the visionary economist, Mahbub Ul Haq. His quest to find ways and means of enhancing the quality of life people experience in the miserable world led to the eventual evolution of the HDI as a composite measure of development. Nobel Laureate Professor Amartya Sen awarded for his work in welfare economics, a close friend of Mahbub Ul Haq, is renowned for his contributions to the concept of Human Development. Professor Sen's work is embedded in his enquiries into social choice, distribution and poverty. The HDI is a composite index measuring these basic dimensions of human development, such as, a) long and healthy life (measured by life expectancy at birth), b) knowledge (as measured by adult literacy rate, and the combined gross enrolment ratio for primary, secondary and tertiary schools), and c) decent standard of living [as measured by GDP per capita in purchasing power parity (PPP) in terms of US Dollars].

The UNDP's discourse, based on the above, focus on the broader attributes of human well-being. It has defined human development as a process of enlarging people's choices as well as raising the level of well being. In our country, we have prepared the National Human Development Report by capturing the process of development and well being of people from two perspectives, the "conglomerative" perspective, which takes into account advances made by the society as a whole and the "deprivational" perspective which assesses the status of the deprived in a society. It is believed that both these perspectives should be measured and assessed to adequately understand the process of development. Hence, the National Human Development Report (NHDR) of the Planning Commission uses indicators that extend beyond those of economic, educational and health attainments. The NHDR measures indicators, such as, infant mortality rate, life expectancy, formal education, literacy, availability of *pucca* house, safe water, level of poverty and per capita expenditure. I am aware of the efforts on the part of various State governments to come up with State-specific Human Development Reports.

The task is not easy. In the Nobel lecture delivered on December 8, 1998, Professor Sen articulated the intricacies or the inscrutable involved in any measurement of human welfare when he sought rational explanations to questions like:

- How do we judge how well a society as a whole is doing in the light of the disparate interests of different members?
- How do we measure aggregate poverty in view of varying predicaments and miseries of the diverse people that make up the society?
- How can we accommodate the rights and liberties of persons while giving adequate recognition to their preferences?

These are difficult questions to which we do not have ready-made answers, but these questions eloquently speak of the difficulties in achieving all-round development of the society.

India's performance in human development

We, in India, have done remarkably well in many areas of human development. On the social front, we have seen increase in our primary school enrolments, including for girls, which was a major concern. There has been secular and universal reduction in our infant and child mortality rates. Life expectancy has shown significant upward change. The life expectancy at birth that was abysmally low at below 40 years in 1951 increased to 63.9 years for males and 66.9 years for females. Similar upward trends are noticeable in indicators like literacy or access to clean drinking water. All these have culminated in an improvement in human development. As per the *National Human Development Report, 2001* the combined HDI value has improved from 0.302 in 1981 to 0.381 in 1991 and further to 0.472 in 2001. Indications are that this uptrend has been continued in the recent years as well.

Yet, concerns remain. As per the UNDP's *Human Development Report 2004*, India ranked 127 in HDI in 2002 out of 177 countries and the rank for Gender Development Index has been 133. The inequities in our socio-cultural fabric are still quite stark. Quality of maternal health is another area that needs to be addressed. Child health is certainly not what it ought to be. Many children suffer from anaemia, indicative of pervasive under nourishment. Severe malnutrition has been reported in several States. Despite having fairly comfortable level of food availability, food security for all remains elusive, particularly for the vulnerable sections of population who have poor livelihood access or have livelihood susceptible to natural disasters. Gender bias continues to haunt progress as millions of girl children are kept away from higher education. Demographic analysis continues to show that scheduled castes and tribes have lagged compared to the general category population in education and health.

An important issue in this context is volatility of agricultural output in India. Indian agriculture is tested time and again by the harsh realities of the weather. Repeated droughts wreck havoc with more than 60 per cent of our almost 150 million farm based households who have no access to water other than rains. The basic principle of water management is to conserve water where it falls. Sporadic but monumental success has been achieved by small communities in Uttar Pradesh, Rajasthan, Maharashtra, Tamil Nadu, etc. Ralegaon Siddhi near here is one shining example. Much more remains to be done.

Another issue is the diverse performance of the States as per various indicators of development. Among the parameters indicating human development, States that do well on one may not be doing so well in another. For example, while Kerala has achieved very high levels of social development like literacy, sex ratio, health, or higher education, it has not done so well in per capita income. Punjab, on the other hand, has the highest per capita income but has the worst sex ratio in the country.

High regional disparity in HDI across States is also a source of concern. Nevertheless, analysis of State-level HDIs by the Planning Commission indicated a decline in such regional disparity during the last two decades.

What do we aim for the future? It is instructive to turn to a select set of targets for the Tenth Plan:

- Reduction of poverty ratio by 5 percentage points by 2007 and by 15 percentage points by 2012;
- All children in school by 2003;
- Reduction in gender gaps in literacy and wage rates by at least 50 per cent by 2007;
- Increase in Literacy Rates to 75 per cent within the Tenth Plan period (2002-03 to 2006-07);
- Reduction of Infant Mortality Rate (IMR) to 45 per 1000 live births by 2007 and to 28 by 2012;
- Reduction of Maternal Mortality Ratio (MMR) to 2 per 1000 live births by 2007 and to 1 by 2012;
- All villages to have sustained access to potable drinking water within the Plan period;

I am sure that these goals, on implementation, are going to make significant difference to the lives of millions in India.

As you are aware, Government of India has launched major efforts to realise these goals. Health is paramount to good living. The National Rural Health Mission (NRHM) with focus on grass root level public health interventions based on community ownership has been announced for roll out in 2005-06. The budget for the Department of Health and the Department of Family Welfare has been increased by 22 % to Rs.10,280 crore in 2005-06. In the all important sector of education the Government has responded to the needs by allocating Rs.4,754 crore for the Sarva Shiksha Abhiyan programme which is the cornerstone of the Government's intervention in basic education for all children. This constitute an increase of 55% over 2004-05. A non-lapsable fund called "Prarambhik Shiksha Kosh" has been created for funding this programme with increased allocation of Rs.7,156 crore in 2005-06. The National Food for Work programme which was launched in November 2004, is being supported with an overall allocation of Rs.11,000 crore. The Government has proposed to convert this programme into the National Rural Employment Guarantee Scheme which, when fully rolled out, will provide livelihood security to crores of poor families.

State finance and human development

The above enumeration of the goals of human development clearly points out to the necessity of funds for achieving higher quality of life. Interestingly, many of the constituents of such a package, are in the domain of the State Governments. It is here that that State finance and human development develops a strong bondage.

What has been the state of the States' finances in recent years? *The Economic Survey*, 2004-05 pointed out that the deterioration in the finances of State Governments has been sharper than that of the Central Government. All the major fiscal indicators reveal a worsening of the fiscal situation as compared with the position obtaining in 1990-91. Fiscal deficit of States as a proportion of GDP increased from 3.3 per cent in 1990-91 to 5.1 per cent in the revised estimates for 2003 – 04 . Revenue deficit too witnessed a sharper rise to 2.6 percent of the GDP as per the revised estimates for 2003-04. The factors responsible for such a deterioration are many and include factors, such as, growing burden of: a) interest payments, b) pension liabilities, and c) administrative expenditure, mounting losses of State owned public enterprises, inappropriate user charges, increased contingent liabilities and deceleration in Central transfers.

Such fiscal stress seriously erodes the States' capability to discharge its paramount responsibility for developing social and economic infrastructure. It has increasingly been recognised that it is the State

finances where the government sector's interface with the people is the maximum. Hence, fiscal consolidation and progressive implementation of fiscal and institutional reforms by the States will have a direct bearing on the quality of life of people. The RBI on its own part have taken several initiatives to create awareness about the urgent need for fiscal correction by the States and initiated many measures, such as, advising States to set up Consolidated Sinking Fund for debt servicing, constitution of Guarantee Redemption Fund to meet guarantee obligations, sensitising them towards the fiscal risk arising out of guarantees extended by States besides undertaking several studies and preparing reports, mainly through the forum of State Finance Secretaries on important fiscal issues like pension liabilities, fiscal responsibility legislation, restructuring of the State level enterprises, etc.

It is, however, heartening to note in this regard that a number of States have been making serious endeavours to carry forward the fiscal reform process and have either enacted the Fiscal Responsibility Act or are in the process of doing so, particularly after the recent publication of the report of the State Finance Secretaries' Group on Model Fiscal Responsibility Legislation at the State level. In a major shift in approach, the 12th Finance Commission has linked the enactment of the Fiscal Responsibility Legislation as a precondition for debt relief. This has assumed significance at the macro level as large deficits at the State level can cause distortions to the overall fiscal discipline in the country. The 12th Finance Commission has also provided a framework for substantial increase in Central devolutions and transfers to states. This would result in beneficial impact on revenue account. More grants-in-aid will also be available for expenditure in the social sectors which will be an additionality over the normal expenditure by the States in these sectors.

Availability of resources alone cannot generate social sector development. It is in this context that the Finance Minister in his Budget speech has distinguished between the outlay and the outcome. A major element would be the development of proper institutions. NGOs or local self government like Panchayati Raj have a lot to do with the attainment of outcome in the social sector development. The lowest sub-State administrative level in the country is the district which plays a critical role in the outcomes of the government programmes and interventions. Large number of monitoring studies, evaluations, and research have found that the outcomes have large variations across States and even across districts in the same State. It is here that the participants of this programme do have an extremely significant role.

Concluding observations

I am glad that the first among this series of programmes is being attended mostly by the officials from the State Governments. You are the people who remain at the level of implementation and, thus, are at the cutting edge of societal transformation. In conclusion, it is to be realised that the onus of practicing such principles for enhancing human development lies on all of us, while the nation is waiting and, may I add, impatiently.

Let me end by quoting from one of the last notes left behind by Mahatma Gandhi in 1948 :

"Whenever you are in doubt, or when the self becomes too much with you, apply the following test. Recall the face of the poorest and the weakest man whom you have seen, and ask yourself, if the step you contemplate is going to be of any use to him. Will he gain anything by it? Will it restore him to a control over his own life and destiny? In other words, will it lead to freedom for the hungry and spiritually starving millions? Then you will find your doubts and your self melt away."