

Social spending: Its impact on income and living standards in Kerala

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This column, in the last two issues of *Kerala Economy*, had examined the structure of employment and income in Kerala and shown that the share of the labour force engaged in non-agricultural activities is more extensive and that the productivity and earnings per worker are higher in Kerala than in many other states, especially those in the heartland region of India. It has been argued that the upbeat trend in Kerala could be the outcome of re-distributive transfers, which the state has pursued through social spending. The present note takes this argument further and suggests that the public provisioning of services in the state has had a benign impact on the income and living standards of the people. Some empirical evidence in support of the argument is given in Table 1. As in the earlier articles, the relevant figures are under two columns, one on Kerala and the other on all-India basis.

Table 1. Comparative estimates of earnings, demography and expenditure per head in Kerala and India

Rows		Kerala	India
1	Per capita expenditure on social services (Rs) 2018-19	11285	8738
2	Per capita expenditure on education (Rs) 2018-19	5702	4013
3	Per capita expenditure on public health (Rs) 2018-19	1892	1171
4	Per capita expenditure on non-development services (Rs) 2018-19	15234	7140
5	Growth of population between 2001 and 2011 Censuses (%)	4.9	17.7
6	Total fertility rate (2017)	1.7	2.2
7	Infant mortality rate per thousand (2017)	10	34
8	Maternal mortality rate per 100,000 live births (2015-17)	42	122
9	Population above 60 years percentage of total population (2011)	12.6	8

Rows		Kerala	India
10	Percentage of women with secondary education and above 2017-18	57	32.3
11	Net attendance of girls in higher secondary level schools 2017-18	78.5	42.7
12	Percentage of ailments treated in public hospitals 2017-18	47.5	30.1
13	Expenditure Rs per spell of non-hospitalized treatment per person(R)	432	592
14	Expenditure Rs per spell of non-hospitalized treatment per person(U)	545	710
15	Expenditure (Rs) per hospitalized treatment Public hospitals 2017-18	4589	4837
16	Expenditure (Rs) per hospitalized treatment Pvt. Hospitals 2017-18	32746	38822
17	Expenditure per male student/year in tech/prof. course 2017-18	39967	51844
18	Expenditure per female student/year in tech/prof. course 2017-18 Rs	41570	47421

Source: Rows 1 to 4: Government of Kerala (2020a) Revised Estimates from Tables B4, B13 and B11

Row 5: Government of India (2020) A169; Row 6, 7: A160, Row 8: A 166, Row 9: Government of India (2020) Table 9.7

Rows 10: Government of India (2019a) Tables 3.1, Row 11: Table 9.1

Rows 12: Government of India (2019b) Table A8; Rows 13-14, Table A22; Rows 15-16: Table A17

Rows 17-18: Government of India (2019a) Table 19.1

Through the past several decades, Kerala has maintained a higher level of social spending. From 1990-91 to 2000-01, the average share of social sector (including education and health) in total expenditure was 42 per cent in Kerala against an all-India average of 37 per cent. From 2005-06 to 2011-12, the same ratio came down to 33 per cent (RBI, 2014 p 156) . After that, the state managed to retrieve some lost ground, as indicated in Table 1 (Rows 1-4). According to the revised budget estimates of Kerala Government for the year 2018-19, the per capita expenditures under different categories such as i) Education, ii) Public health, iii) Social services (including i and ii), and iv) Non-development services were distinctly high, compared to the corresponding all-India average.

Such spending on social sectors is reflected in some impressive gains on the human resource front of Kerala. The indicators listed in Table 1 point to notable demographic changes as well as improvements in the health and education of the people. For instance, population growth between 2001 and 2011 was 4.9 per cent in Kerala, the lowest among large Indian states (Row 5). The advancement in healthcare shows up in the lowest total fertility rate (TFR), infant mortality and maternal mortality among the Indian states (Rows 6-8). Another

indicator of improved health is the changing age composition of the population. In 2011, people aged 60 years and above formed 13 per cent of the total population of Kerala, significantly higher than the all-India average (Row 9). The Economic Survey (Government of India 2020), which ranked the states about the quality of healthcare available to people in 2019-20 has placed Kerala on top of the league tables.

As for the educational status, we can look beyond the standard measures of literary and examine the progress in extending the reach of higher education. Results of a national survey on education (Government of India 2019a) show that share of women with secondary education and above was 57 per cent in Kerala, remarkably higher than the all-India average (Row 10). The same survey showed that the net attendance ratio of girls in higher secondary schools was 79 per cent against a much lower India average (Row 11). As we noted earlier in the case of healthcare, Kerala also has the top rank with the quality of school education among the states.

The state government's active presence, promoting social consumption through re-distributive spending, has had an impact on the cost of providing healthcare and education to the general public. This cost reduction applied to service providers both in the public and private sectors. State's involvement in providing social services served as a restraining influence on any possible increase in the prices of services. In the bargain, consumers derived an "income effect", which positively influenced their access to better quality services. Such interventions effectively ensured equitable access to health and education in the state. Some illustrative figures of the income effect, derived from the NSS 75th Round, are in Table 1.

About half of the ailments treated in Kerala were in public sector medical institutions, as such a significantly higher share compared to the whole of India (Row 12). In this regard, the average expenditure per person for non-hospitalized treatment in rural and urban areas of Kerala - Rs 432 and Rs 545 respectively - was remarkably lower than the corresponding all-India average (Rows 13-14). The average expenditure per person for hospitalized treatment in urban areas is separately available for government and private hospitals. In both cases, the cost estimates of Kerala - Rs 2743 and Rs 21,808 - were lower than the all-India averages (Rows 15-16). It is conspicuously lesser in public hospitals, compared to private hospitals of Kerala and the whole of India.

The state's presence has also had a benign influence on the cost of higher education, in particular, technical education both in the public and private sectors. Expenses per student,

pursuing technical education at the secondary and graduate levels, as obtained from the NSS 75th Round point to lower average costs in Kerala than in the whole of India. The figures are available for male and female students (Rows 17,18). They too give credence to the idea of an income effect due to the public provisioning of services in Kerala.

In short, the evidence put together here suggests that Indian states can make significant gains through raising the public provisioning of services. Any potential increase in the social consumption of health and education would only raise the income and living standards of the people. Indeed, this is a subject matter for more policy debates based on substantive research in the domain of Public Economics.

¹ Such a drastic decline is linked to a strict implementation of the Fiscal Responsibility and Budget Management Act (FRBMA) of 2003. As estimated by Narayana and Sheel (2018, Table 8), the average shares of aggregate expenditure on health and education in Kerala during the pre-FRBMA period were 21 and 6 per cents respectively, which came down to 17 and 5 per cents in the immediate aftermath of FRBMA.

² Kerala has a total of 74 points. At the lower end of the ranking were UP with 27 points and Bihar with 32 points (Government of India 2020, Vol 2, Table 9.8).

³ The total score is 86 points. At the low end are Jharkhand with 31 points and Bihar with 37 points (Government of India 2020, Vol 2, Table 9.8).

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