Do Public Policy Dynamics Stimulate Anti-Incumbency Waves? Results from Indian States

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Results from Indian States

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Abstract

India left aside the economic philosophy of import-substitution led growth model in 1991, and increasingly integrated itself with the world economy. While the GDP growth of the country has been commendable in global comparison, devolution of actual development at state level is a relevant research question. It has been argued that India's poorer growth prospect in recent times is a result of the counterproductive policies adopted over last decade, particularly since 2009. The present analysis contributes to this debate by exploring two key questions. First, it enquires how the government policies on social sector, measured by inflation adjusted average per capita social sector expenditure (PCSSE) and per capita grants-in-aid disbursement (PCGAD), contribute to economic development, as reflected through inflation and inequality adjusted Monthly Per Capita Consumption Expenditure (MPCE), across various states over the last two decades. Second, it also attempts to explain the influence of the development dynamics, as reflected through growth in MPCE, on General Election outcomes. The analysis clearly indicates that the government policies in the social sector crucially influence the development process, which in turn may significantly affect the General Election outcomes. Given these findings, it is concluded that there is room for introspecting on recent restructuring on Centre-State financial devolutions.

Keywords: public policy, consumption expenditure, political economy, development policy, NSSO Rounds, Indian states, social sector expenditures, budgetary devolution, federal government, general election.

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Introduction

India left aside the economic philosophy of import-substitution led growth model in 1991, and increasingly integrated itself with the world economy. While the liberalization drive increased the external orientation with rising cross-border trade and investment flows, the insulation from the waves of global recession also eroded in the process. The basket of policy reforms, including removal of industrial licensing system, reduction of tariff barriers to allow import of cheaper raw materials and parts and components, improvements in ease of doing business, allowing 100 percent foreign direct investment in almost all sectors etc., significantly propelled the growth engine. Over the last two decades, India has consistently been posited as a major driver of world growth, given the high level of annual GDP growth that the economy witnessed. The Goldman-Sachs report by Wilson and Purushothaman (2003) specifically noted the expectation on rising incomes, demand for capital and high growth in Brazil-Russia-India-China (BRICs) that is likely to unfold over the next few decades. The subsequent World Bank and International Monetary Fund projections have also put Indian economic growth well above the world average (Sugden, 2016).

The Indian growth path since 1991 in the light of the global scenario can be viewed from Figure 1, where the average GDP growth (annual percent) for select economy groups, China and India has been compared by using World Development Indicator data (World Bank, undated). Instead of individual countries, the growth pattern of China and India has been compared with various low and middle income country groups from across the regions, so as to review their performance in a wider context. It is overserved that China and India are performing commendably in terms of growth scale. The growth scenario in *East Asia & Pacific (developing only)* is higher vis-à-vis India because of inclusion of China in that group. Over 2001-10, China and India have grown at an annual average growth rate of 10.52 percent and 7.54 percent respectively, as against the corresponding figure of 2.59 percent for the world economy. However, during 2011-14 the annual average growth rates for China, India and the world declined to 8.05, 6.48 and 2.49 percent in that order. It is evident that while the growth prospects in China and India suffered due to the series of events from 2009 onwards (e.g., the sub-prime crisis, the Greek debt crisis, the Eurozone crisis, and the recent global recession), they remained considerably above the corresponding global average.

It has been argued that India's poorer growth prospects in recent times is a result of the counterproductive policies adopted over last decade, particularly since 2009 and economic growth has resulted mostly from continuation on past developmental activities (Panagariya, 2016). Given this debate, one major question that emerges is whether the government policies have contributed to the development process across various states over the last two decades. Second, evidence from literature suggests that political competition can influence human development (HD) in the country (Dash and Mukherjee, 2015). The current study attempts to understand whether the development process can influence General Election outcomes.

Keeping this perspective in mind, the current paper intends to understand the level of economic development across the 28 Indian states and the political repercussions in the post-liberalization period. The paper is organized as follows. First, a brief discussion on development process in India and the government initiatives for promoting the same is

undertaken, followed by description of the methodology adopted. Based on the findings, the policy observations are noted at the end.

The current study contributes to the political economy of development literature in the following manner. Per capita gross state domestic product (GSDP) as an indicator for measuring level of development has certain obvious shortcomings in the Indian context. The factors like industrial agglomeration, population density, spread of the service sector etc. are uneven across states, and therefore the average figures will not represent the actual scenario. Instead of the GSDP figures, the monthly per capita consumption expenditure (MPCE) of the states is a more suitable indicator (GoI, 2002). The present analysis estimates the inflation and inequality adjusted average MPCE expenditures in all 28 states and links the same with the government expenditure in terms of state-wise Per Capita Social Sector Expenditure (PCSSE) and Per Capita Central Grants-in-aid (PCGAD), both of which crucially facilitate economic development process. The state-wise observations are then used for understanding whether they can explain the General Election outcomes during 1999, 2004, 2009 and 2014.

India after Liberalization: A Review of Issues

India in the post-independence period depended on a planned growth approach in line of Harrod-Domar framework, which underlined the need for boosting the savings rate and marginal product of capital for securing growth (Eckaus, 1967). Apart from heavy industrialization, it also relied significantly on employment creation through generation of a vibrant small scale industries network through policy push like reservation, priority sector credit etc. (Morris and Basant, 2006). It further attempted to reduce the disadvantages in securing industrial growth in states away from mineral-rich regions through freight equalization policy (1948). In short, the approach favoured equity over regional growth. However, the limitations associated with the import-substitution led growth policy intensified in eighties, finally reaching peak in early nineties due to a number of external and internal factors (Bajpai, 2002; Joshi and Little, 1996). The liberalization policies initiated in 1991 set the stage for realization of scale economies by removing the entry and licensing restrictions, size and concentration related limitations and so on. The freight equalization policy was removed, thereby enabling the states to encourage the industries to relocate to their territories and plan their growth path. The attractiveness of the states, especially economic freedom index in the urban centres, has undergone interesting transitions since then (Debroy *et al.*, 2011; Debroy *et al.*, 2013; Debroy *et al.*, 2014).

Overlooking the distributional consequences in the aftermath of economic reforms may lead to increase in poverty and other livelihood challenges (Coudouel *et al.*, 2006). India's journey from early nineties to the present has been far from a smooth one. The rural economy faced various challenges since nineties, the first and foremost of which has been the falling agricultural productivity. Studies reveal that the compound annual growth rate of all crops in 1990s has been lower vis-à-vis the corresponding 1980s figure (Sharma, 2011). Even states like Punjab were not immune to this trend (Sidhu, 2002). Declining trend in rural employment was also noticed (Chadha and Sahu, 2002). The fall in foodgrains production led to a fall in real agricultural wage growth from 4.68 per cent to 2.04 per cent between 1981-91 and 1991-99 (Saxena, 2000). However growth in the non-farm sector during nineties was subsequently witnessed (Eswaran *et al.*, 2009). Recent studies reveal that while states are converging in terms of land productivity, the same in terms of labour productivity is still forthcoming (Balaji and Pal, 2014). It can be noted that labour productivity happens to be a

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function of various factors like nourishment and calorie intake, HD achievements etc., which crucially depend on government policies to promote development.

The growth scenario in the urban sector has been rosier, though associated with its own challenges, e.g., managing water supply, sewerage and solid waste, urban transport, securing institutional arrangements for growing urbanization etc. (Vaidya, 2009). Service sector contributed significantly in the urban growth process (Pais, 2014). The decline in poverty trends since mid-nineties, as noted by various NSSO rounds, indicated the trickle-down effect of growth (GoI, 2013).[i]

Despite economic growth, unemployment and rise in inequality has emerged as two major concerns. First, rise in unemployment rate during nineties was noticed, though labour productivity and average wage earning also increased (Sundaram, 2001). In recent period, duration of unemployment has been longer, with increase in casualisation and marginalisation of both the rural and urban workforce. In addition, the male-female and rural-urban rates of unemployment have narrowed over the period, owing to both from demand and supply side related dynamics (Mohan, 2014). Moreover growing inequality in multiple dimensions, e.g., between agriculture-non agriculture disparity in per worker income, wage earners and owners of capital, between locations etc., has been noticed (Papola, 2012). All these have influenced the change in average MPCE across Indian states differently. Recent observations show that inequality within food and non-food groups has come down, although overall expenditure inequality is widening (Basole and Basu, 2015).

Figure 2 reveals that in terms of household final consumption expenditure growth, China, India and other developing countries of East Asia have performed commendably during 2011-14. All these economies witnessed a growth rate in excess of 8 percent during this period, which is markedly higher as compared to the corresponding figure during the preceding period (2001-10). The result underlines certain improvements in Indian households vis-à-vis other regions of the world. This underlines the need to focus on the major drivers of such development.

Human development is a crucial driver of economic development, both in India and abroad (Mukherjee and Chakraborty, 2011; Mukherjee *et al.*, 2016). Recognition of the importance of social sector schemes for promoting HD and creating an enabling environment at state level, either directly or indirectly, is vital. The current discussion focuses on two specific routes through which such supports can be provided.

First, per capita social sector expenditure (both revenue and capital expenditure) captures the per capita public expenditure of the respective State Governments. However, it is not entirely financed by the States by their own resources (own tax and non-tax revenue). Expenditure on social services comprises (in major heads) of education, sports, art & culture, medical & public health, water supply, sanitation, housing & urban development, information & broadcasting, welfare of scheduled caste, scheduled tribes & backward classes, labour & employment, social welfare & nutrition and other social services. Expenses on social services not only provide public goods and services but also help in construction (capital expenditure) and maintenance (revenue expenditure) of basic social infrastructure. These expenditures are building blocks of long run investment in human capital formation (education, health and employment). Achieving equity and equality in provision of public goods and services across States is the basic objective of the fiscal policy. Different States have different capacities to mobilize their own resources, given their locational disadvantages and endowment of natural

resources. Therefore achieving the objective of equity would have remained an elusive dream if there was no system of fiscal devolution. In federal system, fiscal devolution plays a crucial role as equaliser in achieving vertical (centre – state) as well as horizontal (across states) equities.

Second, apart from the share in central taxes, States also receive Central grants-in-aid to support basic functions of the government. Grants-in-Aid from Centre comprises of plan and non-plan grants. Non-plan grants are mediated by the Finance Commission awards and plan grants are mediated by the erstwhile Planning Commission through plan transfers determined by the modified Gadgil-Mukherjee formula. Plan grants comprise of 'Grants for State / Union Territory Plan Schemes', 'Grants for Central Plan Schemes', 'Grants for Centrally Sponsored Plan Scheme' and 'Grants for Special Plan Scheme' (mostly for North Eastern States under the Schemes of North Eastern Council). The dependence on grants-in-aid across States varies depending on their own fiscal space. For example, during 2001-14, on an average grants-in-aid financed 10.5 percent of total expenditure of general category states (GCS) (minimum 2.4 percent to maximum 22.8 percent), the corresponding average figure stood at 52.4 percent (minimum 25.4 percent to maximum 89.5 percent) for special category states (SCS).

Both as part of the Millennium Development Goals (MDGs) commitments and the unilateral efforts for augmenting education and health related achievements, a number of policy measures have been introduced in recent times. Several policies that are being implemented across states through government support, which in long run would enhance HD, income and welfare, deserves mention in this context. For instance, the *Sarva Shiksha Abhiyan* (SSA) has been initiated for ensuring universal elementary education among children aged 6-14 across the states and the National Programme of Mid-Day Meals in Schools have been an integral part of it. While the scheme has improved the enrolment rate, the quality of food served remains a major challenge (Khera, 2006). The Indian Parliament has enacted *The Right of Children to Free and Compulsory Education Act* in 2009, which is another crucial step for facilitating inclusive growth (Tilak, 2007).

Apart from provision of education, the National Rural Health Mission (NRHM, 2005-12) has been launched with the objective of reducing Infant Mortality Rate (IMR) and Maternal Mortality Ratio (MMR), ensuring universal access to public health services such as women's health, child health, water, sanitation & hygiene, immunization, and nutrition, preventing and controlling communicable and non-communicable diseases, including locally endemic diseases etc. However, the achievements initially had been moderate owing to multiple factors, including failure of decentralisation, lack of inter-sectoral coordination and the undermining of traditional health support etc. (Ashtekar, 2008). The National Urban Health Mission (NUHM) has been launched to help the urban poor, particularly the slum dwellers by enabling them to access essential primary health care services. Recent reviews indicate that the health network in the country has been significantly expanded with improvements in target indicators (GoI, 2015). In addition, the *Pradhan Mantri Swasthya Suraksha Yojana* has been introduced for improving the regional imbalances in provision of health services, especially keeping the vulnerable states in mind.

The provision of the aforesaid initiatives in education and health spheres, along with other measures, provided an indirect boost to income and consumption of target households. Among the direct measures, two initiatives deserve particular mention. First, *The National Food Security Act* (2013) made key foodgrains available at subsidized rates across the country, protecting the interests of below poverty line (BPL) households (Saini and Gulati,

2015). Second, *The National Rural Employment Guarantee Act* (NREGA) (2005) assured 100 days' work for poor households in rural areas where the labour hours can be utilized for creating public utilities. The initiative resulted in creation of new and substantive additions to the resource base and infrastructure (Ranaware *et al*., 2015). On the flip side though, the MGNREGA work is driven by the supply of work, not the demand for it and the role of lower-level functionaries, as a result of which the success depends on a lot of factors not initially considered by the policymakers (Chopra *et al*., undated).

Data and Methodology

The current analysis uses state-specific poverty lines for correcting for inflation and all prices are in 1993-94 prices. The reason for considering poverty line instead of other alternatives (e.g., Whole Sale Price Index, GDP deflator) is that since the consumption expenditure is adjusted by using poverty line (as per the methodology of National Human Development Report 2001), it has been used to keep parity. Though poverty lines are available for rural and urban areas separately, we have estimated rural – urban combined poverty line by using population shares. For state-wise population, we depend on NSSO reports (quinquennial rounds on consumption expenditure) where estimated population are given separately for rural and urban areas. End point population is used to get the per capita figures. For example, to get per capita social expenditure for the period 1993-99, we have divided average social sector expenditure during 1993-94 to 1998-99 by 1999-2000 population (rural and urban combined). Per capita expenditures in current prices are converted into 1993-94 prices by using poverty line of the beginning period of the block period. For example, for the period 1999-2004, the per capita expenditure during 1999-2000 to 2003-04 is adjusted by using poverty line of 1999-2000. If poverty line of 1993-94 is expressed as P_{93}, and poverty line of 1999-2000 is P_{99}, then per capita expenditure during 1999-2004 (say, PCE_{99}) in 1993-94 prices turns out to be $PCE_{99}*(P_{93}/P_{99})$.

Both social sector expenditure (included revenue and capital expenditures) and grants-in-aid figures are taken from Finance Accounts of the respective State-governments. As compared to other database (e.g., RBI State Finances Database), Finance Account data is audited statement of the Comptroller and Auditor General (CAG) of India.

The inflation adjusted average PCSSE and PCGAD figures for the 28 states are reported for four time spans. First, 1993-99 signifies a period when initially the Congress coalition government was in power, followed by the short-lived United Front governments and the first National Democratic Alliance (NDA) government. The period was characterized by domestic challenges following economic reforms and political instability. Second, 1999-2004 denotes a period of relative stability during the NDA tenure, when a number of initiatives for infrastructure development (both in rural and urban areas) and trade promotion were introduced. Third, 2004-09 indicates the period when the first United Progressive Alliance (UPA) government came to power, and a number of social sector policies targeting upliftment of the underprivileged were initiated. Finally, 2009-12 represents the first three years of the second UPA government, whose policies were increasingly questioned from 2010 onwards and several accusations of rent-seeking activities surfaced.

For understanding the dynamics in the post-liberalization period, average MPCE data is obtained from the following National Sample Survey Organisation's (NSSO) quinquennial surveys: (50th Round: 1993-94, 55th Round: 1999-2000, 61st Round: 2004-05, 66th Round: 2009-10 and 68th Round: 2011-12). While 1993-94 represents the post-reform period, 1999-

2000 on the other hand, depicts the period of turmoil owing to several external (e.g. Southeast Asian Crisis) and internal factors (e.g., political uncertainty etc.). In comparison, 2004-05 is a phase characterized by economic stability as well as introduction of several HD and quality of life augmenting policies. Although the policies continued in the subsequent period, since 2008 GDP growth rate declined considerably owing to global recession. 2009-10 and 2011-12 therefore capture the development scenario in post-recession phase and immediately after the fiscal stimulus package was announced by the Government of India.

The average MPCE data, as obtained from NSSO is first adjusted for inequality using State-wise *Gini* Ratios of MPCE (also provided in the quinquennial rounds). The inequality adjustment is important because a State characterized by high average MPCE with lower Gini Ratio is better off as compared to a State with higher average MPCE with higher Gini Ratio, and that perspective need to be factored in. The inequality adjusted MPCE is further adjusted for inflation, by considering State-specific poverty line, to make it amenable to inter-temporal and inter-spatial comparisons (GoI, 2002). The poverty lines corresponding to NSSO rounds are available from Planning Commission publications.

The aforesaid adjustments are carried out along the following lines. If GR_{ij} is the Gini Ratio for the jth State for the ith period and $MPCE_{ij}$ is the average monthly per capita consumption expenditure for the jth State for the ith period, inequality adjusted average monthly per capita expenditure for the jth state for the ith period ($IMPCE_{ij}$) is expressed as $(1-GR_{ij}) \, X \, MPCE_{ij}$, where $0 \le GR_{ij} \le 1$. After adjustment for inequality for each of the states, the adjustment for inflation is carried out. If PL_{ij} is the poverty line (in Rs. per capita per month) for the jth State for the ith period and $PL_{1983\,j}$ is the poverty line of the jth State for 1993-94, then inflation and inequality adjusted average monthly consumption expenditure for the jth State for the ith period ($IIMPCE_{ij}$) is expressed as $(PL_{1993-94\,j} / PL_{ij}) \, X \, IMPCE_{ij}$.[ii] The calculation of inflation and inequality adjusted MPCE of a state is carried out in this manner.[iii] Once the inflation and inequality adjusted MPCE figures for the states are calculated, the growth rate of the same over successive rounds have been calculated.

Results

The inflation adjusted PCSSE figures for the 28 states are summarized in Table 1, and the following conclusions emerge. First, during 1993-99 to 1999-2004, PCSSE (in 1993-94 prices) of 8 general category states (GCS) (out of 15 GCS, as Jharkhand and Chhattisgarh were not formed in that period) registered growth rate lower than 10 percent. Even Kerala, Rajasthan and Uttar Pradesh registered negative growth rates. In the same period, out of 10 special category states (SCS), 8 states registered growth rate lower than 10 percent and Manipur and Nagaland registered negative growth rates. Maximum and minimum growth in PCCSE was reported in Goa and UP respectively. Average growth rate of PCSSE in GCS was only 8.7 percent, whereas the same for SCS was only 1.5 percent.

Second, during 1999-2004 to 2004-09, only 3 out of 17 GCS had lower than 10 percent growth rate in PCSSE (namely, Goa, Gujarat and Punjab). For SCS, 6 out of 11 states had less than 10 percent growth rate and Meghalaya, Mizoram and Nagaland experienced negative growth rates. All three new states (Jharkhand, Chhattisgarh and Uttarakhand) reported quite high growth rates. Among SCS, Meghalaya, Mizoram and Nagaland reported negative growth rates. Though three SCS (J&K, Manipur and Tripura) registered positive

growth rates, the figures remained below 10 percent. Lowest growth rate was reported in Nagaland. In comparison to previous period, the performance of GCS improved but the improvement in performance of SCS remained moderate. Average of GCS improved by 27.3 percent, whereas average of SCS improved by only 14.1 percent.

Finally, during 2004-09 to 2009-12, except two States (Jharkhand and Punjab) all GCS registered positive and higher than 10 percent growth rate. Except Manipur and Nagaland, all SCS registered double digit growth rates. The average of GCS improved by 24.9 percent, whereas the corresponding figure for the SCS stood at 28.6 percent.

The inflation adjusted PCGAD figures, reported in Table 2, leads to the following observations. First, during 1993-99 to 1999-2004, 9 out of 15 GCS registered lower than 10 percent growth rate in PCGAD disbursement. Out of these 9 States, all of them registered negative growth rates, barring the exception of Madhya Pradesh. For SCS, except three States all States registered higher than 10 percent growth rate, with Assam registering a negative growth rate. Average PCGAD for GCS declined by 1.8 percent, while the same for SCS increased by 4.5 percent.

Second, during 1999-2004 to 2004-09, except two states under GCS all states registered double digit growth rates. Goa registered a negative growth rate. Average of GCS increased by more than 80 percent. Though, average of SCS increased by 19.2 percent, 6 out of 11 states experienced a growth rate lower than 10 percent. Interestingly, 5 states witnessed negative growth rate.

Finally, during 2004-09 to 2009-12, 9 out of 17 GCS registered lower than 10 percent growth rates. 5 States (Gujarat, Kerala, Punjab, Rajasthan and Tamil Nadu) witnessed negative growth rates. On the other hand, 7 out of 11 SCS had growth rates lower than 10 percent, among whom Manipur, Tripura and Uttarakhand registered negative growth rates. Average of GCS and SGS increased by only 15.8 percent and 12.2 percent respectively.

The obtained results on inflation and inequality adjusted average MPCE are summarized in Table 3, from which the following conclusions emerge. First, over 1993-94 to 1999-00, MPCE has increased for all Indian states, which partly indicates the trickle-down effect of growth in the post-reform period. Only 7 states experienced growth less than 10 percent and no state has experienced negative growth in MPCE. Second, over 1999-00 to 2004-05, MPCE has declined for all the 28 states, signifying a general decline in monthly per capita consumption expenditure pattern across the country. Third, over 2004-05 to 2009-10, MPCE registered a fall only in a SCS, Nagaland. Finally, over 2009-10 to 2011-12, MPCE declined for two north-eastern states, Arunachal Pradesh and Tripura and a relatively backward state, Uttar Pradesh. However, 15 states experienced less than 10 percent growth in MPCE during this period.

The PCSSE and PCGAD expenditure patterns along with the MPCE trends clearly indicate the close association between social sector expenses as well as central grants and household consumption standards. During 1999-2004 increase in the inflation adjusted PCSSE and PCGAD remained moderate in most of the Indian states as compared to the corresponding 1993-99 figures and the reduction in government support can be partly responsible for decline in inflation and inequality adjusted MPCE across states. In other words, the reduction in social sector supports accordingly influenced the consumption level, even if poverty level declined during the period. Conversely, when the budgetary devolutions

on PCSSE and PCGAD increased over 2004-09 as compared to 1999-2004 figures and in 2009-12 over the preceding period for most of the states, MPCE registered a rise. MPCE considered here as a suitable proxy of well-being, the observations underline the crucial role of government interventions to promote livelihood improvement across the States through various social sector schemes and grants-in-aid.

Policy Conclusion

Economic development has been a dynamic process in India. The current study examines whether the government expenditures have reflected in the average monthly per capita consumption expenditure of Indian states. Our findings indicate that government expenditures – both PCSSE and PCGAD - positively influence MPCE in the county. In developing countries like India, public investment in human capital formation (e.g., in health, education, employment generation) rather complements private investment.

Existing literature indicate that increasing public spending on developmental activities exerts a positive and significant effect on HD achievements (Dash and Mukherjee, 2015; Mukherjee and Chakraborty, 2011; Mukherjee *et al*., 2016). Higher HD facilitates abilities of the households to engage in productive activities, and accordingly enhance their income and wealth. It may be argued that the intense political competition may encourage the incumbent governments at centre or states to undertake steps which are welfare-augmenting in nature. In this context, there is need to differentiate between populist policies and truly HD augmenting initiatives. Policies that facilitate HD by enhancing education, health and indirect income supports, enable families at the margin to emerge out from the shadows of uncertainty and contribute as productive entities in the growth process. The public expenditure on social sector fronts rightly qualifies for such supports.

Given the development pattern, with change in governments, the financial transfer framework may however witness reorientation of priorities. As the analysis indicates, average MPCE increased during late nineties, and the consequent perception on well-being can be suggested as one of the underlying factors behind the short-lived NDA government coming back to power at the 1999 General Election. The budgetary devolution figures reveal that the returning NDA government focussed on other areas (e.g. infrastructure) instead of social sector schemes, which can be observed through decline in the inflation adjusted average PCSSE and PCGAD across several key states. The changed budgetary priorities are part responsible for the decline in adjusted average MPCE in almost all parts of the country, and the perceived economic stress by the households got reflected in the ballot box during the 2004 General Election. The new UPA government realigned the focus towards social sector schemes and the rise in average PCSSE and PCGAD was subsequently reflected in higher cross-state adjusted average MPCE scenario in the following period. It may be argued that the sharp rise in budgetary devolution on these two fronts over 2004-09 to 2009-12, enabled the government to come back to office in the 2009 General Election. However, over 2009-10 to 2011-12, the number of states with MPCE growth less than 10 percent reached 15 (including populous states like Uttar Pradesh, Madhya Pradesh, Karnataka), i.e., the extent of development was thin in a major part of the country. This perceived lack of well-being may explain the return of NDA to power in 2014 General Election. The observations clearly underline that the government policies in the social sector crucially influence the development process and in turn may significantly affect the General Election outcomes.

In the aftermath of 14th Finance Commission award and restructuring of Centrally Sponsored Schemes (CSS), a larger responsibility has been bestowed on the States to chart out their own development path depending on structure and composition of the economy. In view of higher share in tax devolution to States (from 32 percent to 42 percent of divisible pool as per the award of 14th Finance Commission) and recommendations of the sub-group of Chief Ministers on rationalization of CSS (Niti Aayog, 2015), the Government of India has consolidated the numbers of schemes into three categories – a) Core of the Core Schemes (6 schemes), b) Core Schemes (19 schemes) and c) Optional Schemes (3 schemes), and also changed their financing patterns. Only Core of the Core Schemes will be solely financed by the Central Government. For the Core Schemes the sharing pattern between States and Union would be in the ratio of 90:10 in case of North Eastern and Himalayan states, and 60:40 for all other states.[iv] For Optional Schemes, the sharing pattern would be 80:20 for North Eastern and Himalayan states and 50:50 for other states. The restructuring has however been criticised for not including schemes on health and education in the list of 'Core of the Core Schemes' (Chakraborty and Gupta, 2016).[v] Given the observations of the current analysis, there is need to introspect closely in this matter.

Two areas of future research would reveal interesting insights. First, in the aftermath of the 14th Finance Commission recommendations, it has been expressed that the policy of restructuring CSS and giving importance to schemes which assist / supplement present consumption (e.g., NREGA) cannot give long run growth impetus that can be secured through human capital development route (e.g., education and health related achievements). A balanced approach is required, but this may not the objective for any government when the assurance of coming back to power is uncertain. Availability of the next NSSO round results will enable researchers to assess how the changed financial devolution patterns have been reflected in MPCE across states and in what manner they influence the change of government in the 2019 General Election. Second, applying the methodology discussed here, MPCE can be calculated for the rural and urban areas separately, which would provide richer understandings on the political economy of development at the more disaggregated level.

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Table 1: Per Capita Social Sector Expenditure in Indian States over 1993-94 to 2011-12

Sl. No.	States	Average Per Capita Social Sector Expenditure (Revenue + Capital) (Rs.) (1993-94 Prices)				Percentage Change in Average Per Capita Social Sector Expenditure		
		1993-1999	1999-2004	2004-2009	2009-2012	1993-99 to 1999-2004	1999-2004 to 2004-2009	2004-09 to 2009-12
1	Andhra Pradesh	664	744	916	1,018	12.1	23.2	11.2
2	Bihar	355	385	521	588	8.5	35.4	12.8
3	Chhattisgarh	--	443	1,001	1,402	--	126.0	40.0
4	Goa	2,105	3,024	2,758	4,005	43.7	-8.8	45.2
5	Gujarat	867	1,071	977	1,302	23.6	-8.8	33.3
6	Haryana	826	841	1,066	1,438	1.8	26.7	35.0
7	Jharkhand	--	343	873	857	--	154.5	-1.8
8	Karnataka	755	803	1,154	1,328	6.3	43.7	15.1
9	Kerala	955	934	1,079	1,354	-2.1	15.5	25.5
10	Madhya Pradesh	526	610	691	943	16.1	13.3	36.5
11	Maharashtra	793	929	1,162	1,384	17.2	25.1	19.1
12	Orissa	570	581	827	1,151	2.0	42.4	39.2
13	Punjab	810	870	818	885	7.4	-6.0	8.3
14	Rajasthan	808	800	909	1,015	-1.0	13.7	11.6
15	Tamil Nadu	882	979	1,158	1,561	11.0	18.2	34.8
16	Uttar Pradesh	398	375	609	775	-5.7	62.2	27.4
17	West Bengal	538	655	778	1,111	21.8	18.7	42.9
	*Weighted Average of General Category States**	*624*	*679*	*864*	*1,080*	*8.7*	*27.3*	*24.9*
18	Arunachal Pradesh	2,636	2,762	3,158	4,202	4.8	14.4	33.1
19	Assam	698	719	843	1,218	3.0	17.2	44.5
20	Himachal Pradesh	1,690	1,911	2,243	2,640	13.1	17.4	17.7
21	Jammu & Kashmir	1,451	1,857	1,904	2,255	28.0	2.5	18.5
22	Manipur	1,803	1,713	1,772	1,859	-5.0	3.5	4.9
23	Meghalaya	1,490	1,495	1,363	1,824	0.3	-8.9	33.9
24	Mizoram	4,046	4,159	3,012	3,623	2.8	-27.6	20.3
25	Nagaland	3,865	3,762	2,428	2,429	-2.7	-35.4	0.0
26	Sikkim	3,479	3,676	4,184	6,186	5.7	13.8	47.8
27	Tripura	1,452	1,621	1,702	2,099	11.6	5.0	23.3
28	Uttarakhand	--	726	1,355	1,722	--	86.5	27.1
	Weighted Average of Special Category States	*1,224*	*1,243*	*1,419*	*1,825*	*1.5*	*14.1*	*28.6*
	Number of States with negative growth in PCSSE	-	-	-	-	5	6	1
	Number of States with growth less than 10%					15	7	4

Note: *- weighted by share in total population of the respective category of states   Source: Constructed by authors from GoI (2002, 2009, 2012, 2013) data

Table 2: Capita Grants-in-Aid Disbursement by the Central Government in Indian States over 1993-94 to 2011-12

Sl. No.	States	Average Per Capita Grants-in-Aid Disbursement by the Central Government (Rs.) (1993-94 Prices)				Percentage Change in Average Per Capita Social Sector Expenditure		
		1993-1999	1999-2004	2004-2009	2009-2012	1993-99 to 1999-2004	1999-2004 to 2004-2009	2004-09 to 2009-12
1	Andhra Pradesh	201	240	294	314	19.5	22.6	6.8
2	Bihar	134	114	297	319	-14.9	161.1	7.3
3	Chhattisgarh	--	135	396	611	--	192.9	54.6
4	Goa	476	327	308	590	-31.4	-5.6	91.3
5	Gujarat	158	248	249	235	56.6	0.7	-5.9
6	Haryana	161	157	228	351	-2.3	45.0	54.2
7	Jharkhand	--	97	295	475	--	204.2	61.0
8	Karnataka	156	204	377	409	30.9	84.8	8.6
9	Kerala	213	168	308	274	-20.8	83.1	-11.2
10	Madhya Pradesh	172	176	349	441	2.7	98.0	26.3
11	Maharashtra	136	110	320	321	-19.4	191.0	0.4
12	Orissa	254	253	486	625	-0.6	92.2	28.5
13	Punjab	150	175	308	259	16.3	76.2	-16.0
14	Rajasthan	291	245	306	302	-16.0	25.2	-1.4
15	Tamil Nadu	164	181	334	319	10.2	84.7	-4.7
16	Uttar Pradesh	149	103	210	292	-31.3	104.9	38.8
17	West Bengal	152	186	290	361	22.6	55.8	24.3
	*Weighted Average General Category States**	*169*	*166*	*299*	*347*	*-1.8*	*80.1*	*15.8*
18	Arunachal Pradesh	6,075	6,331	6,805	9,932	4.2	7.5	46.0
19	Assam	672	544	813	834	-19.0	49.4	2.6
20	Himachal Pradesh	1,479	2,001	2,769	2,925	35.3	38.4	5.6
21	Jammu & Kashmir	2,985	4,151	3,993	4,491	39.1	-3.8	12.5
22	Manipur	2,621	2,946	3,859	3,776	12.4	31.0	-2.2
23	Meghalaya	1,957	2,221	2,079	2,733	13.5	-6.4	31.5
24	Mizoram	6,857	7,028	6,062	6,188	2.5	-13.8	2.1
25	Nagaland	6,261	9,306	6,350	6,785	48.6	-31.8	6.8
26	Sikkim	5,077	6,141	5,655	7,970	20.9	-7.9	40.9
27	Tripura	1,928	2,412	3,365	3,353	25.1	39.5	-0.4
28	Uttarakhand	--	724	1,251	1,212	--	72.8	-3.1
	*Weighted Average Special Category States**	*1,680*	*1,755*	*2,091*	*2,345*	*4.5*	*19.2*	*12.2*
	Number of states with negative growth in PCSSE	-	-	-	-	9	6	8
	Number of States with growth less than 10%					12	8	16

Note: *- weighted by share in total population of the respective category of states   Source: Constructed by authors from GoI (2002, 2009, 2012, 2013) data
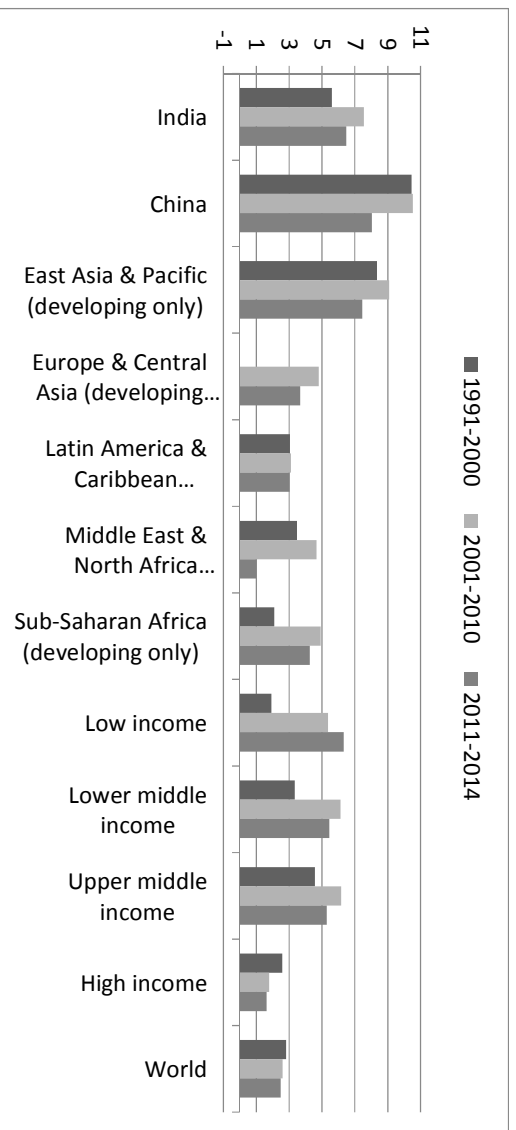
Table 3: Inflation and Inequality adjusted MPCE in Indian States over 1993-94 to 2011-12

Sl. No.	States	Inflation and Inequality Adjusted Monthly Per Capita Consumption Expenditure (MPCE)					Percentage Change in Inflation and Inequality Adjusted Monthly Per Capita Consumption Expenditure (MPCE)			
		1993-94	1999-2000	2004-05	2009-10	2011-12	1993-94 to 1999-2000	1999-2000 to 2004-05	2004-05 to 2009-10	2009-10 to 2011-12
1	Andhra Pradesh	230.9	246.0	197.8	275.6	337.3	6.5	-19.6	39.4	22.4
2	Bihar	179.0	202.1	166.0	204.8	249.4	12.9	-17.8	23.3	21.7
3	Chhattisgarh*	203.7	216.5	173.6	234.8	259.8	6.3	-19.8	35.2	10.6
4	Goa	360.4	453.7	295.3	423.4	480.9	25.9	-34.9	43.4	13.6
5	Gujarat	261.9	309.3	235.9	302.7	340.7	18.1	-23.7	28.3	12.6
6	Haryana	288.0	363.6	269.4	343.5	408.5	26.3	-25.9	27.5	18.9
7	Jharkhand*	179.0	202.1	189.8	238.9	250.5	12.9	-6.1	25.8	4.9
8	Karnataka	223.6	267.3	219.7	302.5	330.3	19.6	-17.8	37.7	9.2
9	Kerala	289.1	366.1	319.1	405.1	449.7	26.6	-12.8	26.9	11.0
10	Madhya Pradesh	203.7	216.5	192.2	255.5	275.8	6.3	-11.2	32.9	7.9
11	Maharashtra	247.9	288.2	245.4	350.3	407.0	16.3	-14.8	42.7	16.2
12	Orissa	180.9	186.8	154.4	235.3	246.9	3.3	-17.3	52.4	5.0
13	Punjab	333.4	380.9	280.6	340.8	393.4	14.2	-26.3	21.5	15.4
14	Rajasthan	253.0	288.4	223.2	293.0	328.2	14.0	-22.6	31.3	12.0
15	Tamil Nadu	232.9	281.3	254.2	362.1	401.3	20.8	-9.6	42.4	10.9
16	Uttar Pradesh	210.3	235.8	200.9	239.0	229.6	12.1	-14.8	18.9	-3.9
17	West Bengal	233.8	249.9	227.2	280.8	313.2	6.9	-9.1	23.6	11.6
18	Arunachal Pradesh	237.9	294.5	237.2	324.8	299.6	23.8	-19.5	37.0	-7.8
19	Assam	224.4	229.4	215.9	265.4	271.0	2.2	-5.9	22.9	2.1
20	Himachal Pradesh	268.4	349.7	266.4	374.4	393.6	30.3	-23.8	40.5	5.1
21	Jammu & Kashmir	303.6	370.8	288.4	346.0	371.9	22.1	-22.2	20.0	7.5
22	Manipur	259.2	292.0	205.4	221.8	237.0	12.7	-29.7	8.0	6.9
23	Meghalaya	280.0	333.3	254.8	303.6	319.0	19.1	-23.6	19.1	5.1
24	Mizoram	365.9	422.5	246.6	305.4	314.6	15.5	-41.6	23.8	3.0
25	Nagaland	383.7	536.7	282.2	273.3	297.5	39.9	-47.4	-3.2	8.9
26	Sikkim	249.1	278.0	223.1	316.9	321.6	11.6	-19.7	42.0	1.5
27	Tripura	274.8	286.8	205.0	335.7	310.2	4.4	-28.5	63.7	-7.6
28	Uttarakhand*	210.3	235.8	223.4	302.9	381.7	12.1	-5.2	35.6	26.0
	Number of states with negative growth in MPCE	-	-	-	-	-	0	28	1	3
	Number of States with growth less than 10%						7	28	2	15

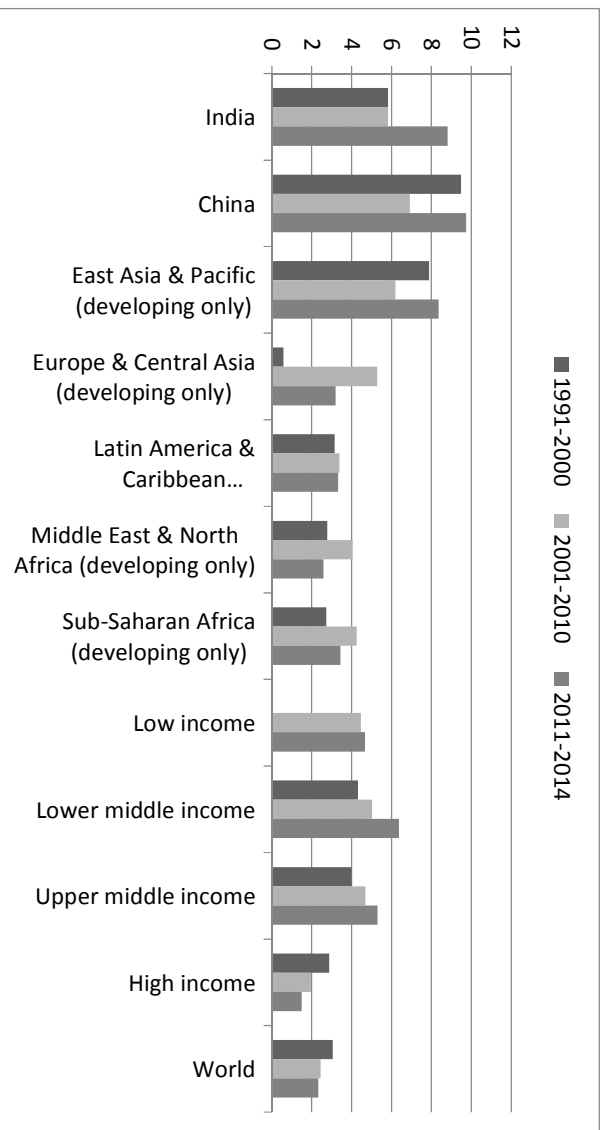Note: *-prior to 2004-05, consumption expenditure is considered same as the mother state   Source: Constructed by authors from GoI (2002, 2009, 2012, 2013) data

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Figure 1: Comparison of Average GDP growth (annual %) for Select Economies

Source: Constructed by authors from World Bank (undated data)

Legend: 1991-2000, 2001-2010, 2011-2014

Categories: India, China, East Asia & Pacific (developing only), Europe & Central Asia (developing...), Latin America & Caribbean..., Middle East & North Africa..., Sub-Saharan Africa (developing only), Low income, Lower middle income, Upper middle income, High income, World

Figure 2: Comparison of Average Household final consumption expenditure, etc. (annual % growth) for Select Economies

Source: Constructed by authors from World Bank (undated data)

Legend: 1991-2000, 2001-2010, 2011-2014

Categories: India, China, East Asia & Pacific (developing only), Europe & Central Asia (developing only), Latin America & Caribbean..., Middle East & North Africa (developing only), Sub-Saharan Africa (developing only), Low income, Lower middle income, Upper middle income, High income, World

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Endnotes:

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[i] It deserves mention that the methodology adopted in the 1999-00 round was subject to criticism (Sen, 2000; Deaton and Dreze, 2002).

[ii] State-specific poverty lines for the two periods (1993-94 and 1999-00) have been taken from GoI (2002) and for 2004-05, 2009-10 and 2011-12 data released by the Planning Commission (GoI, 2009, 2012, 2013) has been considered.

[iii] Three new states, namely - Chhattisgarh, Jharkhand and Uttarakhand were created from Madhya Pradesh, Bihar and Uttar Pradesh in 2001. For periods before 2001, it has been assumed that the values of the variables are same for both the new and the existing states.

[iv] In case a scheme/sub-scheme has a central funding pattern of less than 60:40, the existing funding pattern will continue.

[v] Core of the Core Schemes comprise of: 1) Mahatma Gandhi National Rural Employment Guarantee Scheme, 2) National Social Assistance Programme, 3) Umbrella Programme for Development of Scheduled Castes, Umbrella Scheme for Development of 4) Scheduled Tribes, 5) Backward Classes and other vulnerable groups and 6) Minorities. Core Schems comprise of 1) Green Revolution, 2) White Revolution, 3) Blue Revolution, 4) Pradhan Mantri Krishi Sinchai Yojna, 5) Pradhan Mantri Gram Sadak Yojna, 6) National Rural Drinking Water Programme, 7) Swachh Bharat Abhiyan, 8) National Health Mission, 9) Rashtriya Swastha Suraksha Yojna, 10) National Education Mission (NEM), 11) National Programme of Mid-day Meals in Schools, 12) Integrated Child Development Scheme, 13) Pradhan Mantri Awas Yojna, 14) National Livelihood Mission, 15) Forestry and Wildlife, 16) Urban Rejuvenation Mission, 17) Modernisation of Police Forces,18) Infrastructure Facilities for Judiciary, and 19) Member of Parliament Local Area Development Scheme (GoI, 2016).