Social Preference and Governance: A Case Study in India

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Abstract

This study investigates the relationship between social choice and fiscal performance in India since 1991. Social choice is simple measurement in public affair activities like participating in election. Vote turnover in a democracy is taken to measure trust on institution. Social trust is considered as a proxy of social capital. Truly, the percentage vote turnover is the measurement of the level of citizens' chance to express their preferences, which certainly help to increase governmental responsibility and accountability and thereby government performance. Here, the government is forced to be responsive to citizens' preferences and the underlying social contract rule, which leads to a higher level of fiscal discipline. Using principal component analysis we construct social capital index that captures both structural and cultural aspects. Fiscal institution in India becomes weak in the post reform era. Group of politicians are much more interest about their local or regional issues than national issues even they are not interested to formulate regional development policy through discussion in the Parliament of India. Here higher value of social index indicates higher level of social trust as proxy of higher social capital. High social capital inversely affects the fiscal performance.

Key Words: Social Preference, Trust, Social Capital, Vote Turnover, Institution, Performance of Government, Fiscal Performance

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Introduction

In a democratic system, generally, citizens (or voters) delegate the power to their representative agents to form a government and conduct social welfare functioning through selecting appropriate public or/and fiscal policy. Fiscal performance is the key indicator to judge the activity of the government and also a mirror image of the performance of representative agents. Here two aspects – (i) the principal–agent relationship[1] between voters (the principals) and politicians (the agents), and (ii) the common pool problem of public finances, are important for the conduct of fiscal policy. Governments all over the world are concerned with efficiency in public service provision. All governance systems confront the tension between short term political interests, often dictated by electoral cycles, and the longer term need for fiscal stability and service delivery in line with governments' stated policy priorities. Recent time, there is growing interest in how political and institutional factors affect fiscal performance at national (Roubini and Sachs 1989, Alesina and Perotti 1996, 1997; Poterba 1996, Strauch and Hagen 2000, Perotti and Kontopoulos 2002) and local levels (Dafflon 2002, Hagen and Vabo 2005).

There is a need to analyse the performance of political agents and institutions in India. These institutions are particularly important for fiscal policy decisions as fiscal institutions create the environment, the incentives, the rules, the regulations and the constraints under which budgets are drafted, approved, and implemented. *Fiscal institutions* promote fiscal discipline through proper design. Sometime an institutional framework (that results in soft budget constraints) provides incentives for loose fiscal discipline. These rules greatly vary over state governments that reflect state choice.

Here, we should mentioned major difference between quantitative and procedural institutions (Buchanan 1980). Quantitative rules entail tax and expenditures limitation laws, debt brakes and other formal restraints to balance the budget. Empirical observation of Bohn and Inman (1996), Poterba (1997) or Shadbegian (1998) suggest that the budget rules support the fiscal discipline of policy makers. Procedural institutions define how property rights over political decisions are acquired, and assign authority to exercise them. Persson and Tabellini (2003) observed that the constitutional design of the regime type and the electoral rules crucially and significantly shape the fiscal policy decisions.

However, it is impossible to design a constitution to establish a framework of quantitative and procedural institutions that answers all future questions of a society. So, there is certain degree of uncertainty. Hence trust becomes a crucial aspect. Mutual trust in the case of uncertainty reduces transaction costs and makes the institution to work smoothly (Putnam et al 1993, Putnam 2000; Fukuyama 1995). Trust is one of the most important and highly significant components of a social institution. Here, trust is the social capital of a society and plays the most important role in fiscal policy decisions.

This study concentrates on the relationship between fiscal deficit and trust in the government using the sample of major Indian states over the period 1991-2012. We measure trust in two ways (i) as the percentage vote turnover during general election in India, i.e., trust in institution and measuring the level of citizens' chance to express their preferences, (ii) as the percentage of vote share of the winning party with their seat share compare to second largest party, i.e., trust on political agents. Citizens vote according to their choice as per the political

[1] The principal agent problem refers to a situation in which the principal relies on the agent to perform an action which is in the principal's interest, but that is costly to the agent. If there is information asymmetry and the principal cannot effectively monitor the agent, the agent would have an incentive to behave opportunistically. For instance voters elect politicians to act in their interests, but politicians may instead act in their own personal interests. Similarly civil servants may act in their own interests rather than in that of their political head. The problem of the principle is to design an incentive regime that aligns the interest of the agent with that of the principle, so that the agent – acting in her own interest – will carry out the wishes of the principal.

agenda forwarded by political parties. The highest seat sharing party form the government and second largest party becomes opposition or runner. Vote turnovers certainly help to increase governmental responsibility and accountability. It is true that the government is forced to be responsive to citizens' preferences and the underlying social contract rule, which leads to a higher level of fiscal discipline. Our *hypothesis* states that more trust in government, measured as the electoral support of winner's agenda is a signal for a stronger social cohesion between the government and the electorate, which in turn results in strong fiscal policy decisions.

Literature Review

The concept of *social capital* evolves over time[2] and it has been defined in several ways. Social capital is the network of objective relationships (structural dimension) that people and organizations have, and subjective relationships (cognitive dimension) that linked to norms and trust in other people and organizations. Initially the social organization is considered as social capital, 'facilitating the achievement of goals that could not be achieved in its absence or could be achieved only at a higher cost' (Coleman (1990)). Putnam et al (1993) provide similar characterization referring to 'the features of social organization, such as trust, norms, and networks that can improve the efficiency of society'. In their view, social capital is a positive group externality that arises from social organization/institution. Whereas Fukuyama (1995) argues for certain shared norms and values that assure 'the meeting of obligation and reciprocity'. Putnam (2000) introduces the idea of social capital in terms of 'connections among individuals – social networks and the norms of reciprocity and trustworthiness that arise from them.' At individual level social capital also refers to a system of interpersonal networks (Dasgupta 2002), which enhances cooperation and collaboration that helps also to create the economic opportunities. Social capital might be considered as 'resources embedded in social networks and accessed and used by actors for actions' (Lin 2001). Social capital can be considered as the stock of active connections among individuals and also helps to resolve collective problems easily in the form of 'cooperative action' (Cohen and Prusak 2001).

The concept of social capital has two important components: (i) it represents resources embedded in social relations rather than individuals, and (ii) access and use of such resources reside with actors. Thus, social capital creates a common platform in which individuals can use membership and networks to secure benefits[3]. Social capital is the shared knowledge, understanding, norms, rules and expectations about patterns of interactions that groups of individuals bring to a recurrent activity (Ostrom 2000). Social capital is usually understood as referring to the values and norms prevailing within the community, to the networks that are based on those values and norms, and to the social trust that evolves through those common values and networks. Actually, social capital allows individuals to resolve collective problems more easily and individuals often might be better off if they cooperate, with everybody doing her/his own work[4]. Social capital (at individual level) also refers to a system

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[2] Truly the concept of social capital has a long history in the social sciences. The concept of social capital has been developed primarily in the subjects of sociology and political science. It has become popular in several fields of policymaking and research. Bourdieu (1980, 1986), Coleman (1988, 1990) and Putnam (1993, 1995, 2000) are credited for introducing the concept of social capital and popularized it.

[3] Individuals are engaged in repeated interactions with others in everyday business, thereby, social transactions are less costly.

[4] Society obviously allows individual to act in certain ways and only within a collectively defined and supported area of freedom. Social capital has also been used to refer to the social and cultural capacity of individuals.

of interpersonal networks[5] (Dasgupta 2002), which enhances cooperation and collaboration that also helps to create the economic opportunities.

Most important feature of social capital is the symbolism of capital[6] as an economic metaphor. According to McGonigal et al. (2005) social capital is a form of power, a 'resource': it can be utilized, traded, exchanged, and invested. Social capital concerns the relationships among people with differential power and allows access to resources[7], information and knowledge within a community or groups. Social capital is a capacity, and/or a facility that can, deploy and activated towards some desired goal. Thus, social capital is purposeful; a means toward other ends (McGonigal et al. 2005).

Social capital generates economic effects for its proprietors, whereby it is, unlike other types of capital, not embodied in respective individuals, but rather in relations between them[8]; thus, it cannot be appropriated by any one individual. Consequently, it does not benefit solely those who generate it, but also brings utility to those that do not take part in the process of its creation; thus, the *free-rider* problem arises, with certain individuals avoiding responsibility for the social capital's reproduction. Social capital is a public good and is thus subject to externalities. According to many authors, social capital prevents opportunism, encourages cooperation, decreases transaction costs[9], lowers the possibility of disputes, drives transfer of knowledge and increases solidarity (Fukuyama, 1995; Collier, 1998).

The growing literature claims that repeating trustful interactions in the economy do sediment in higher levels of generalized trust, which is aggregated stock of trust. Scholars like Miguel (2003), Mogues and Carter (2005), Rupasingha et al. (2006) study the relationship between the stock of social capital and its relation to economic development, especially, low crime rates and reduction of other social problems. It should also be noted that countries/regions with relatively higher stocks of social capital, in terms of generalized trust and widespread civic engagement seem to achieve higher levels of growth, compared to societies with low trust (Putnam et al. 1993). So, social capital contributes to economic growth by focusing the importance of trust and cooperation within firm, industry, market and the state. Thus, social capital truly greases the wheels that allow nations to advance smoothly and creates the base for economic prosperity. Economic development of a nation depends on the impact of social capital which includes social culture, social norms and regulations that promote economic reforms and development activities. Social capital in the sense of trust among members of a civil society and social cohesion fosters the working of government institutions.

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[5] The 'effort of sociability' (Bourdieu), the 'general level of trustworthiness' (Coleman), and the operational of 'norms, trust and reciprocity' (Putnam), - all these highlight the domain of interpersonal conduct (McGonigal et al. 2005).

[6] There has been a great deal of scepticism towards using the concept of capital for social capital among certain prominent representatives of the discipline of economics (for example Solow (1997 and 2000; Arrow 2000; and Dasgupta 2000). However, other leading economists have accepted the concept, incorporated it into economic concept terminology, and attempted to measure it and evaluate its importance. Becker (1996) has treated from a theoretical point of view social capital as a variable where the utility for the individual is concerned. Moreover, several studies (Bertrand and Mullainathan (2000), Beugelsdijk and Smulders (2004), Bjornskov (2006), Glaeser et al. (2000), Alesina and Ferrara (2002), Miguel (2003), Knack et al. (1997), Sobel (2002), Tau (2003), Temple and Johson (1998), etc.) have discussed about the features of social capital and economic performance. Knack and Keefer (1997), Temple and Johnson (1998) provide the evidences that high levels of trust and social participation are positively correlated with economic growth, after controlling other growth promoting factors.

[7] Social capital can also be exploited (McGonigal et al. 2005).

[8] The concept of social capital, in sociology, has constantly been present as a concept that stresses the importance of relations. It emphasises on the word "capital", indicating that relations comprise a value component that can become a source of competitive advantage.

[9] A falling level of social capital increases the level of distrust, decreases mutual cooperation, causes growth of crime rates, decreases the number of weddings, increases the number of separations and fosters alienation in neighbourhoods, thus strongly increasing transaction costs (Fukuyama, 1995; Putnam, 1995).

Social trust is one of the key concepts in the social science. Researchers (Knack and Keefer 1997, Zak and Knack 2001, Beugelsdijk et al 2004 etc.) observe the positive relationship between economic growth and social trust. Interactions among citizens build up social trust. Interaction between trust (thought of as an individual behaviour) and public policy seems to be important to increase the effectiveness of fiscal performance[10]. In this study we propose one of the fundamental reasons focusing on the country specific quality of informal institutions. Social capital refers to the notion of informal institutions which is a proxy of the level of generalized trust. Trust is one of the most important dimensions of social capital (Fukuyama 1995, Knack and Zak 2002) and literature proxies the level of social capital using the level of generalized trust (used world value survey data).

Concept of social capital and functioning of democracy: The notion of social capital as an important determinant of economic development has gained momentum since 1990s. Coleman (1988) and Putnam et al (1993) introduced and popularised the concept of social capital, and now it is commonly defined as generalized trust (Beugelsdijk and Maseland 2011). Social capital is described as the willingness to trust others without expectation of immediate reciprocity (Whiteley 2000). In a sense, social capital is presented as a form of informal institution, having an impact on the trajectory of the economy. Social capital acts as a complement to the presence of formal institution and as substitute where formal institutions are at an early stage of development. So, a high level of prevailing social capital will discourage politicians to act opportunistically. In economic literature, the interrelationship between social capital, political regimes and economic performance has not been examined thoroughly. Boix and Posner (1998) argue that along with between–agents cooperation, social capital enhances the performance of governments and institutions. They argue as high level social capital leads to rational voters who punish underperforming governments. A rational electorate will have preferences that will enforce civic virtue, which is described as a shift from particularized to common interest. Hence, we use the concept of social capital.

There are different interests between low and high social capital agents – (i) low social capital agents have particularised interest leading to short term and personal focus; they will be interested in direct benefits such as public goods that they enjoy, or direct costs like the taxes that they pay, but at the same time they will highly discount generalised costs as amount of debt issued in order to provide the public goods at question. (ii) on the other hand, high social capital agents will equally weight both personal and generalized costs.

Citizens having low social capital will be more prone to accommodate a manipulation in the presence of asymmetric information. Both voters are rational and elect competent political agents. The competence is judged on the basis of the capability which is based on the amount of public goods the policy maker is able to provide but they penalize him for the cost as depicted on the level of taxes and the debt issued. However, low social capital voters highly discount the debt and pay more attention to direct benefits and cost. So, the incumbent will have an incentive to undertake fiscal expansion, either reduce taxes or increase public goods financed by issuing new debt, it actually depends on the ratio of low to high social capital voters in the society.

Social Capital and Trust: Trust has been studies in different disciplines. It is an important concept in social sciences, enforcing the interdisciplinary social discourse among researchers. Concept of social capital is multidimensional and it emerges from different aspects of social

[10] Information asymmetry hampers the proper functioning of markets, and its result is the market failure. 'Benevolent Government' maximise social welfare and it can prevent market failure by providing public goods, for instance. Since information is asymmetry between government and citizens, it is difficult for citizens to evaluate the government's activities. This leads politicians and bureaucrats to behave in a way that maximises self-interest. The government is forced to be efficient to maximise social welfare, resulting in economic growth, if citizens can obtain sufficient information about the government's activities.

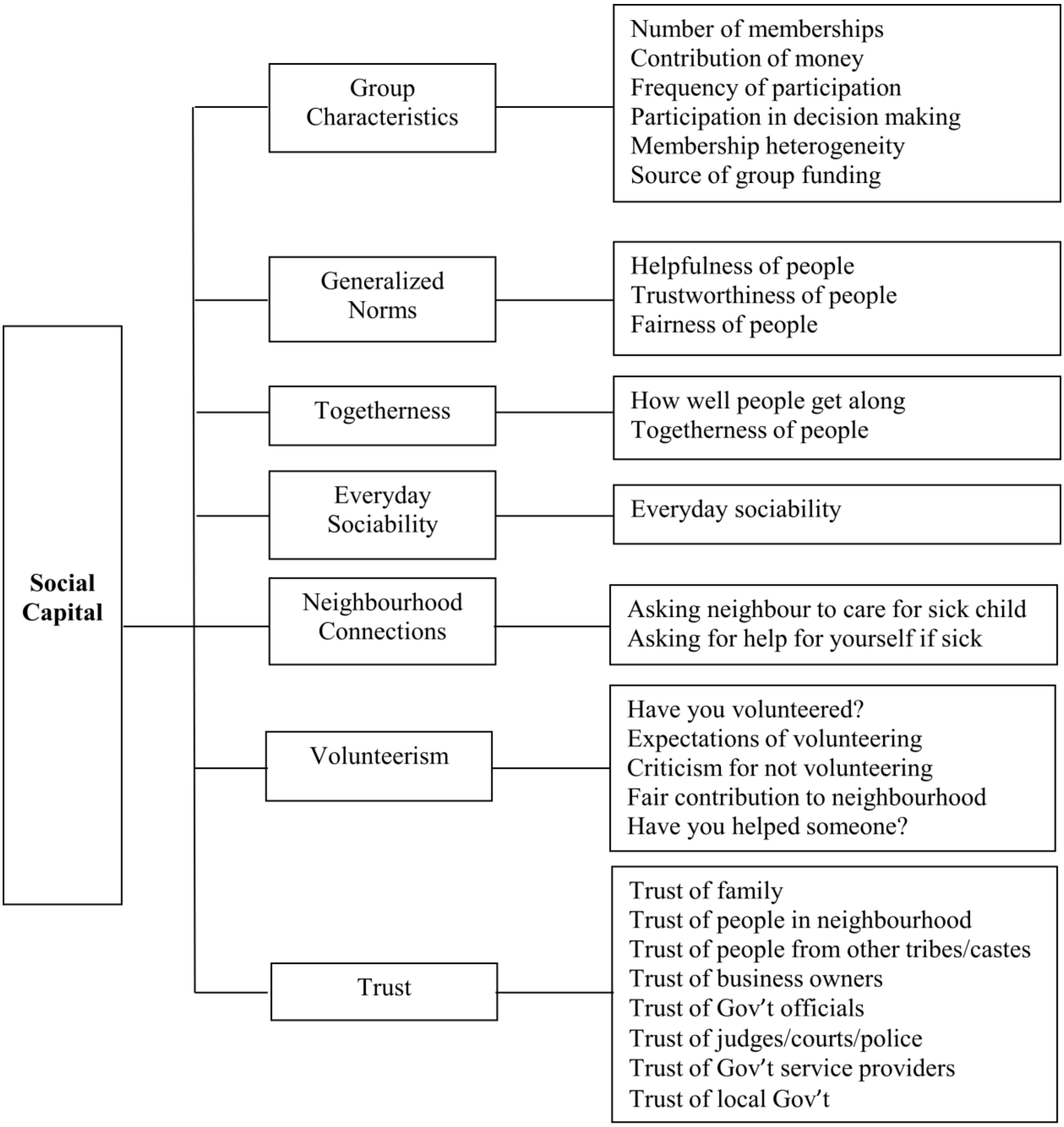
life. Figure 1 demonstrates the dimensions of social capital. Trust, is one important dimension of social capital, is the base on which a democratic system has built up in a country (see subcomponents of trust in figure 1). The work of Putnam (1993) and Fukuyama (1995) have renewed interest on it in the social basis of political and economic development. Putnam (1993) shows the importance of social capital for the effective governance in a democratic social system. According to Putnam (1993) social capital is the features of social organization, such as trust, norms, and networks that can improve the efficiency of society by facilitating coordinated actions. Many authors have singled out trust as an important feature of productive social relationships (see, e.g., Gambetta 1988, Hardin 1993, Dinda 2008). Sociologists have also intensively investigated the concept of social capital. Bourdieu (1980) and Coleman (1988, 1990) have strongly influenced the social capital literature focusing on individuals and small societal units. Portes and Mooney (2002) point out that social capital is the ability to secure resources by virtue of membership in social networks or larger social structures. Knack and Keefer (1997) investigated the impact of civic duty and trust on growth and investment rates in a cross section analysis. Knack and Keefer (1997) find a strong and significant positive relationship between social capital variables and economic growth.

Looking at the public finance literature, Slemrod (1998) argues that the social capital derived from the willingness to pay taxes voluntarily lowers the cost of the operating government and of equitably assigning its cost to citizens. The World Bank is also focusing on social capital and investigating the practical relevance of this concept.

There are several views on social capital (Grootaert 2001) at macroeconomic level: First, the concept developed by Putnam (1993) interpreting social capital as a *social network*, as networks of civic engagement facilitating *coordination and cooperation*. Second, Coleman's (1988) approach defines social capital as "a variety of different entities", consisting of some aspects of *social structure* and facilitating certain *actions of actors*. This allows taking into account not only horizontal but also vertical social relationships. Third concept considers the social and political environment that enforces *norms* and *shapes social structures*.

Our investigation in this paper grounds basically on the third concept, which takes the more formalized institutional relationship between state and citizens at the vertical level into account. As trust is a multidimensional concept, we restrict our focus on a specific dimension: citizens' political trust. This is in line with Rothstein (2003), who argues that the explanation of social capital is much more grounded in political instead of sociological variables.

Figure 1: Dimensions of Social Capital



Government accountability can be seen as the most important aspect of trust with respect to fiscal performance. Engagement, involvement and participation in political and public issues by a large part of the electorate are an important feature to hold politicians and bureaucrats accountable. As the government is better aware of citizens' preferences, policies will better reflect citizens' needs (see, Boix and Posner 1998). It is reasonable to argue that a certain level of fiscal discipline can be seen as a proxy for governmental performance. Voter turnover rates help to increase governmental accountability, so that the government is forced to be responsive to citizens' preferences and the underlying social contract rule of law at large, favouring a higher level of fiscal discipline.

Social capital is a new field, suffering from a great lack of good, reliable data. Both time series and cross-country evidence are missing. Social capital is a promising concept, which can be operationalized by relatively simple measurement. Vote turnover percent in the election in the democracy is taken to measure trust on political institutions. To measure mutual trust among citizen, their representatives and political institutions we also use the information from winning vote percentage share and runner up vote share. Our basic assumption is that electoral support to the agenda of winning political party, government proposals, reveals social trust on government (formed by winning party, or its associates). Electoral support of government proposals reveals an important aspect of trust. Fiscal performance is measured in terms of tax and nontax revenue, expenditure, and/or fiscal deficit (expenditure – revenue). This paper investigates the relationship between social capital (social trust) and fiscal performances using state level data in India.

Data and Methodology

Most of the data are collected from different departments of the government of India. Election data, institutional data, literacy, crime statistics and population data are taken from the Election commission of India, the Ministry of Parliamentary affair, Ministry of Human resource, Ministry of Home and Census, respectively. The Reserve Bank of India (RBI) and the Ministry of finance, government of India, are the main source of financial data. This study focuses on fiscal performance, which is measured in terms of revenue and expenditure and/or, surplus or deficit. As per RBI there are several definitions of deficits (See Appendix for detail). Following RBI deficits are measured as: (i) Revenue Deficit (RD) denotes the difference between revenue receipts and revenue expenditure, (ii) Gross Fiscal Deficit (GFD) is the difference between aggregate disbursements net of debt repayments and recovery of loans and revenue receipts and non-debt capital receipts, (iii) Capital Deficit denotes the difference between capital receipts and capital disbursements, (iv) Net Fiscal Deficit (NFD) is the gross fiscal deficit less net lending of the State Governments, (v) Gross Primary Deficit (GPD) is defined as GFD minus interest payments, etc.

Measuring Social Capital

Basically, two approaches can be discussed in the conceptualization of social capital as a characteristic of communities. In the first, social capital is defined using aggregate-level data on, say, the density of voluntary organizations or rates of political participation. The second strategy relies on aggregated individual-level survey data. As data availability precludes the inclusion of survey-based indices at local level (Municipality and Panchayat), we follow the former approach in our analysis and use only macro-indicators for the measurement of social capital. Specifically, three different indicators are used.

Our first indicator of social capital measures *associational life*. We include this variable, as a wide interlocking web of formal organizations refers to a high level of social capital. Voluntary associations are seen as creators of social capital because of their socialization effects on democratic and cooperative values and norms. Moreover, the trust and norms of reciprocity that people generate in associations are spread over the whole community, encompassing citizens who are not equally active in associational life (Stolle, 2000). We use a wide variety of organizations (per capita) in each state to measure the density of associational activity. In this study we use *average household size* in each state. Household size is an indicator of basic minimum socio-economic associational life. Household is the basic social unit for economic and political activity. Average size of household is 5, and it ranged from 3 to 8 in India.

In a democratic system, household members (citizens or voters) delegate the power to the elected politicians to form a government and conduct fiscal performance selecting proper public policy. Representative political agents generally form the government and take decision related to public policy. Hence, vote turnover is an important variable for us. In correspondence with Casey (2004), Costa and Kahn (2003), Putnam (2000), and Serra (1999), we use *electoral turnout* in the general elections as a second indicator of social capital. This is measured as the number of votes cast on Election Day (valid as well as invalid) divided by the number of registered voters. It refers to civic involvement and participation in public affairs. Turnout rates ranged from 23.5% to 92.8% in the election under study and thus show significant variation between the states in India. This significant variation in actual turnout rates allow us to interpret high turnout levels as signalling an engagement toward the ‘‘common good’’ and thus a high level of social capital (see also Overbye, 1995). The extent of associational life and electoral turnout are indicators that cover the *structural component of social capital* in India.

Fukuyama (1995), Inglehart (1997), and Putnam (1993) have suggested that social norms, but in particular trust among citizens, establish the cultural aspects of social capital. Education level is a good indicator of cultural dimension of general social capital, hence, we may consider average *literacy rate* as indicator of social capital. Literacy rate generates social trust and development. There is also an antitrust, negative side of the society. As Delhey and Newton (2004) have shown that distrust accompanies conflict, *the crime rate* can be conceived as an indicator for the level of generalized trust within a state and thus as an objective proxy for the attitudinal (or cultural) component of social capital. Hence, and thereby following Rice and Sumberg (1997), the *crime rate* in each state is used as our third indicator of social capital. Clearly, as crime in societies will lower citizens’ respect and trust in one another, low crime rates are expected to be indicative of a high level of social capital.

The above three indicators are expected to be measuring a similar underlying concept of social capital. Hence, we combine them into a single index through a factor analysis using *Principal Component Analysis* (PCA) as the method of extraction. This mitigates the influence of idiosyncratic measurement error within each of the variables and maximizes the likelihood of measuring the underlying concept more precisely. Thus, even though the individual indicators of social capital are arguably less than ideal and their choice might be criticized, the component retrieved from the PCA analysis ‘‘probably measures social capital better than any single indicator’’ (Bjørnskov, 2003; see also Knack, 2002; Rice & Sumberg, 1997).

Data Analysis

Primary Observations

Table 1 describes the summary statistics of major variables. Vote turnover rate varies widely from 24% to 92% in both the Lok Sabha and the Bidhan Sabha. Average vote turnover rates are 61.28% and 69.81% in Lok Sabha and Bidhan Sabha, respectively. So, more than 60% voters trust on political institutions (Assembly and Parliament). On an average vote percentage gap between the winner and runner is about 10%, but seat margin is around 46. It should be noted that rejected vote is nearly 2% and its maximum value is 9.2%, which is very high. It can be interpreted that 2 percent people are not interested to reveal their choice preferences. Rejected vote may be a signal of distrust on political institution and its representatives. Average family size is 5. Average economic crime rate and literacy rate are 6.91 and 72.29, respectively.

Table 1: descriptive statistics of major variable of social capital during 1990-2013

Variable	Observations	Mean	Std.Dev	Min	Max

Vote turnover LS	614	61.28	12.12	25.68	91.77
Vote turnover BS	612	69.81	11.14	23.82	91.82
Winner Seats	612	81.58	58.1	16	224
Winner Vote	612	37.6	8.998	18.75	71.09
Runner Vote	603	27.54	8.99	7.88	49.27
Voter rejected (%)	612	2.01	2.0	0	9.19
Seat Margin	612	45.94	43.84	1	190
Vote margin	612	10.47	11.77	-8.84	70.41
Economic Crime rate	336	6.91	4.21	0.84	29.58
Literacy rate	336	72.29	9.43	47	94.21
Average Family Size	336	5.02	0.56	3.6	6.4

This primary observation (Table 1) suggests that social trust is more on Assembly (Bidhan Sabha) than Parliament (Lok Sabha), reason behind it may be the dominating regional interest. Public choice preference is higher at regional level. As per election results the regional parties have emerged and form the government focusing on local issues. It indicates that public choice is high prefer to form the government at regional level rather than national level. So, the government at the Centre or national level become weak that is clearly observed in the performance of the Parliament of India and also performance of the member of the Parliament (MP). Number of the Ordinances has increased due to low performance of the Parliament in the post reform period.

Trusts on Institutions

Voters cast their votes to elect and send their representatives to the policy making institution. Here, voters reveal their trust on (i) institution and (ii) representatives. So, participation of voters in the election process is actually trust on the policy making institutions. Trust on institution is measured here as voter turnover rate (percentage). There are two types of policy-making institutions in national and state levels. Voter turnover in the parliamentary and assembly elections are the indicators of trust on national and state policy-making institutes, respectively. Here we first discuss trust on national policy-making institution, secondly on state or provincial policy- making institution, and finally, on local policy-making institutions.

Trust on National policy-making Institution: Table 2 shows the trend of voter turnover rate in several general elections over the period of 1989-2014. Basically, Table 2 displays the trend of overall trust on policy making institution in India since 1989. Trust on the political institution in India is more or less fixed over long run with short run fluctuations. Overall national trust on institution can be decomposed into state levels. Trust on institution in the state levels are the voter turnover rates in a general election. Table 3 demonstrates the state-wise trend of voter turnover rates during 1989-2014. It is clear that there is huge variation among states in the post liberalization period in India. So, State-wise trust on central policy making institution varies due to several socio-economic and political reasons.

Table 2: Trend of voter turnover during 1989- 2014

Election Year	Registered Voters (Million)	Voter turnover (%)
1989	498.9	61.95
1991	498.4	56.73
1992#	*13.2*	*23.96*
1996	592.6	57.94
1998	605.9	61.97
1999	619.5	59.99
2004	671.5	57.98

2009	717.0	58.19
2014	834.1	66.4

Note: #Elections were held separately for Punjab.

Source: ECI publications & website: www.eci.nic.in

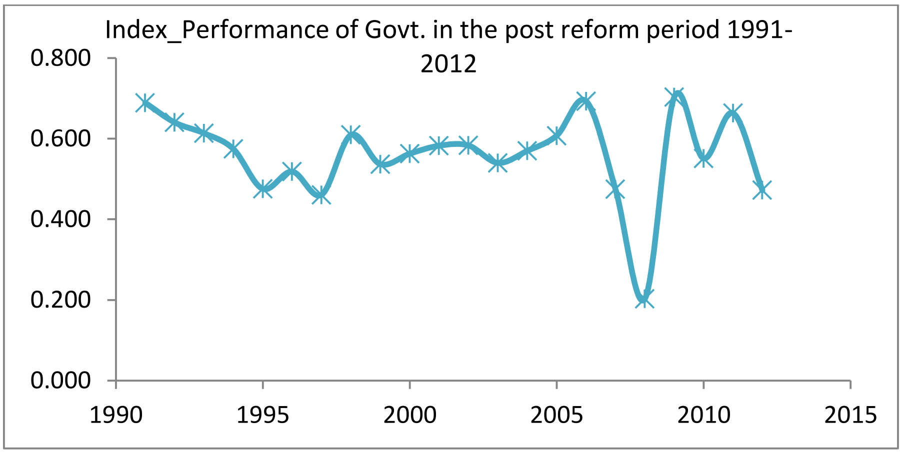
Table 3: State-wise trend of vote turnover rate in LS election for period of 1989- 2014

States	2014	2009	2004	1999	1996	1991	1989
Andhra Pradesh	74.47	72.63	69.95	69.14	63.02	61.42	70.43
Arunachal Pradesh	78.61	68.16	56.35	72.15	55.04	51.28	59.17
Assam	79.88	69.53	69.11	71.26	78.5	75.25	
Bihar	56.28	44.46	58.02	61.48	59.45	60.35	60.24
Chhattisgarh	69.54	55.28					
Goa	77.02	55.28	58.77	45.11	56.33	42.39	58.16
Gujarat	63.6	47.9	45.18	47.03	35.92	44.01	54.58
Haryana	71.41	67.49	65.72	63.68	70.48	65.84	64.41
Himachal Pradesh	64.42	58.41	59.71	56.78	57.58	57.43	63.95
Jammu & Kashmir	49.52	39.68	35.2	32.34	48.96		25.68
Jharkhand	63.87	50.98					
Karnataka	67.17	58.81	65.14	67.58	60.22	54.81	67.53
Kerala	73.89	73.36	71.45	70.19	71.11	73.32	79.3
Madhya Pradesh	61.6	51.16	48.09	54.88	54.06	44.36	55.21
Maharashtra	60.36	50.71	54.38	60.96	52.45	48.75	59.86
Manipur	79.62	77.14	67.41	65.67	75.04	69.65	71.16
Meghalaya	68.79	64.38	52.69	56.16	61.62	53.75	51.92
Mizoram	61.69	51.8	63.6	65.31	73.41	58.64	58.26
Nagaland	87.82	89.99	91.77	76.25	88.32	77.07	74.71
Orissa	73.75	65.33	66.06	55.63	59.22	53.81	59.27
Punjab	70.61	69.77	61.59	56.11	62.25		62.67
Rajasthan	63.09	48.4	49.97	53.86	43.4	47.25	56.53
Sikkim	83.37	83.76	77.95	81.71	77.43	58.75	72.01
Tamil Nadu	73.7	73.03	60.81	57.98	66.93	63.92	66.86
Tripura	84.72	84.45	67.08	68.14	79.09	67.28	83.89
Uttar Pradesh	58.35	47.78	48.16	53.53	46.5	49.24	51.27
Uttarakhand	61.6	53.34					
West Bengal	82.16	81.4	78.04	75.05	82.66	76.73	79.67
NCT of Delhi	65.07	51.85	47.09	43.54	50.62	48.52	54.3
Puducherry	82.1	79.81	76.07	63.27	75.35	67.71	66.71

Source: ECI publications & website: www.eci.nic.in

Performance of the Institution: Here, we use an index measuring the performance of the fiscal institution. Institution performance index is calculated as the ratio of actual government business days performed out of total session days in the year. Initially institution performance index slowly declines till mid 1990s and fluctuates in late 1990s but rises slowly during 2000-2006, then a sudden huge fall in 2008 which was the lowest performance of the fiscal institution since 1991 (see, Fig 2). Overall in the post reform period the performance of institution in terms of business days declines with fluctuation over time. Truly the performance of the institution is fully depends on performance of the government, which depends on the composition of political entities with their political agenda that is directly linked with representatives. Hence, we have to examine the performance of our representatives in the fiscal institution.

Fig 2: Performance of the fiscal institution during the period of 1991-2012.



Trusts on Representatives and their Performance: Performance of the representatives (Members of Parliament (MPs) or policy makers) in the fiscal institution, especially fiscal policy discussion during budget session in the Parliament of India is simply measured in terms of effort hours on budget discussion. Performance of representative is measured in terms of (a) demand for grants and (b) total time taken on budget discussion. Budget session is crucial for making fiscal policy in right direct in a democratic set up. Figure 3 and 4 display the performance of representatives during the period of 1951-2012. Fig 3 shows that discussion on demand for grants has a sharp fall since 1990s. Total time taken is also drastically falls since 1990s. This indicates that representatives spend less time on public finance issues and thereby fiscal institution in India becomes weak. Group of politicians are much more interest about their local or regional issues than national issues even they are not interested to formulate regional development policy through discussion in the Parliament of India. In other way, we can argue that our representatives are performing their duty inefficiently for making public policy in the parliament effectively.

Fig 3: Performance of the representatives during the period of 1951-2012.

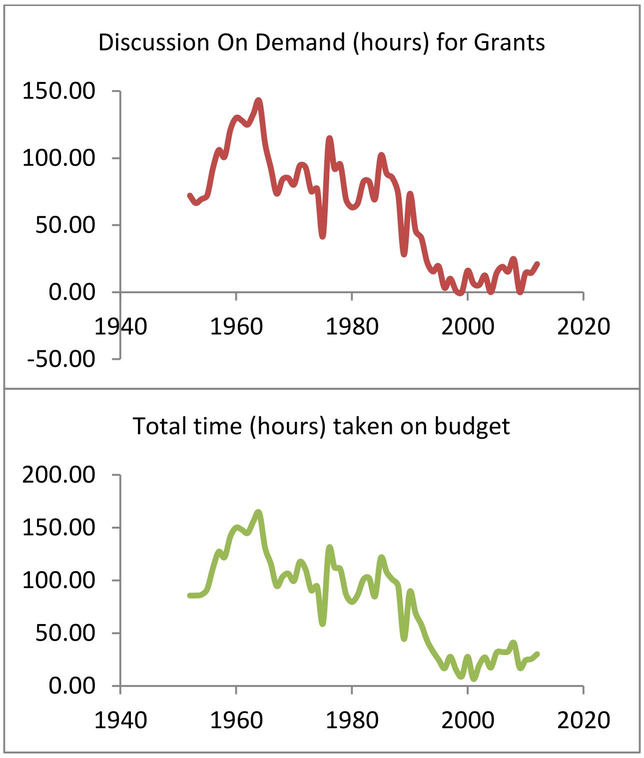


Fig 4: MP’s Performance Index in the fiscal institute during 1951-2012.

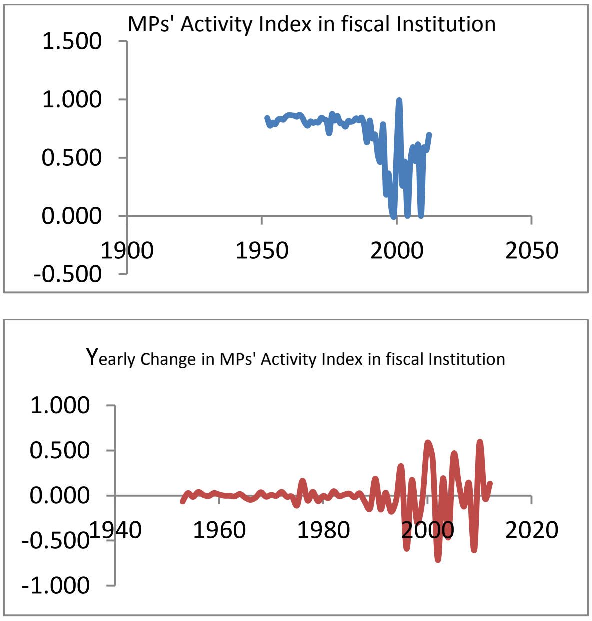
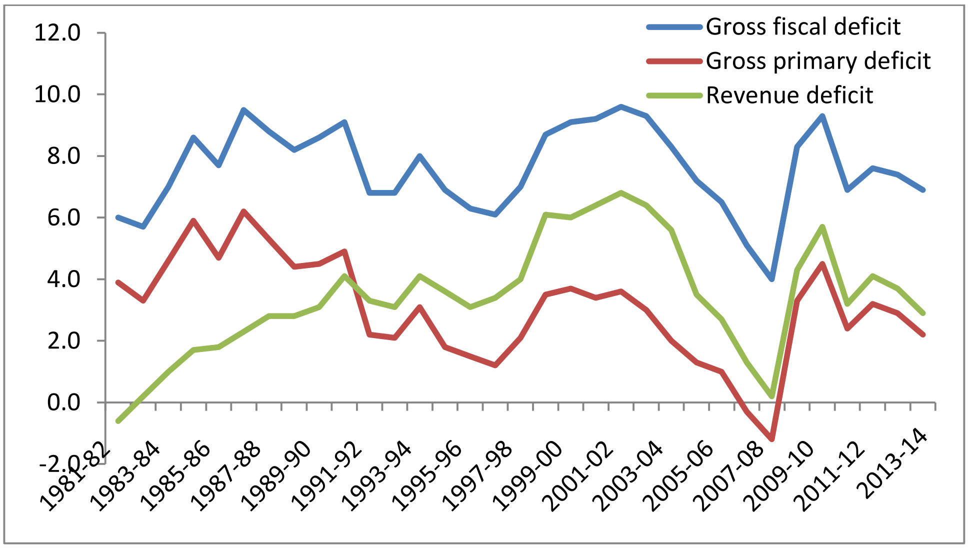


Fig 4 shows the trends of MP’s activity index since 1951. MP’s activity index is measured as the ratio of active participation to total budget discussion during budget sessions only. To capture the behaviour of MP’s activity related to fiscal policy formation we also study annual change of the MP’s activity index. Bottom part of the fig 4 shows the huge fluctuation of MP’s activity index since 1990s. There is high volatility in the performance indices of MP’s activity and also fiscal institution. Perhaps, Indian socio-economic system may be confused, and social trust on central institution is also volatile, which is reflected in general election for lok sabha. Main cause of this volatility is the emerging regional parties based on regional development issues. So, political pressure on the State and Central governments is rising over last few decades. Consequence of it, the government expenditure has increased more than revenue. Here, the fiscal deficit is the key indicator of the performance of the government.

Fiscal Performance

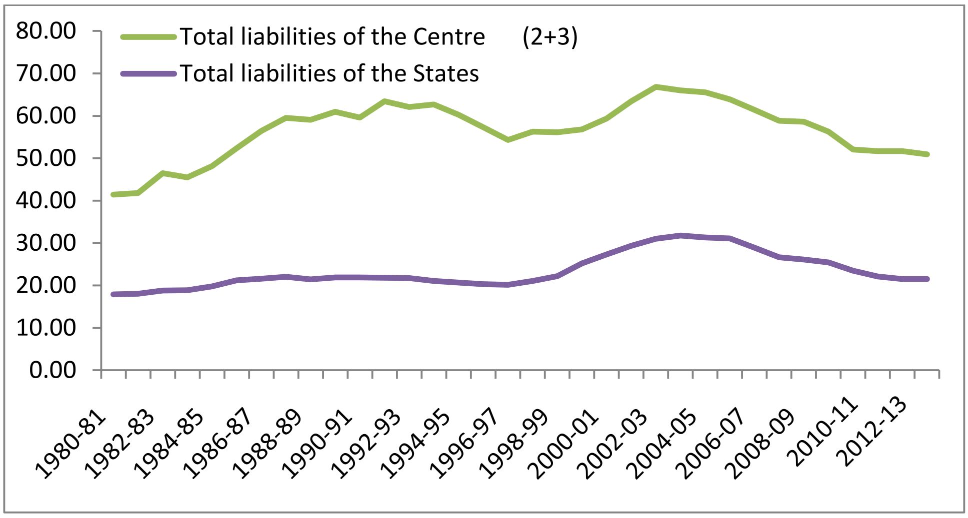
Fiscal performance of India is the performance of the government of India regarding collection of revenue and expenditure for a certain period. Here, we focus on the fiscal performance of India in terms of financial status of India in pre and post reform era. During 1980-81 – 2012-13, the government expenditure is more than revenue, so, fiscal deficits play crucial role in India. Fiscal performance in India can be decomposed into the State and Central governments. Gross fiscal deficit (State and Central combined deficit) fluctuates over the period of 1981-82 to 2013-14. Figure 5, 6 and 7 display the trends of fiscal performance of India. In the post reform period, gross fiscal deficit has reached at the maximum and minimum level in 2001-02 and 2008-09, respectively (see, Fig 5). Movement of revenue deficit over time is very much similar to that of gross fiscal deficit. Primary deficit declines in the post reform period and become negative in 2008-9. Fiscal deficit is positive and high, but it starts to decline sharply during 2001-2 – 2008-9. It is good indication for the economy.

Fig 5: Combined Deficit (% of GDP) of Centre and State Governments since 1980-81.



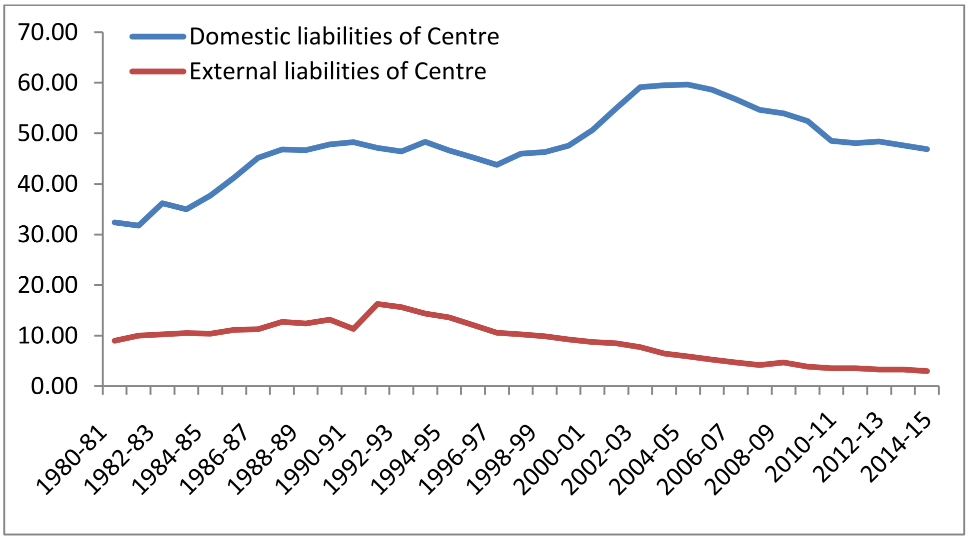
The government of India, the policymaker, has taken several development projects to provide public goods for improving public welfare. These development projects are funded from loans or debts – internal as well as external. Hence, we also observe that the fiscal deficit is strongly connected with debt. Figure 6 and 7 show the trends of financial liabilities of the government during 1980-81 – 2012-13. Consequence of fiscal deficit, debt burden (measured as % of GDP) has increased during 1980-81 – 2012-13 (Fig 6). Figure 6 displays the trend of total liabilities (or debt percentage of GDP) of Centre and State governments during 1980-81 02012-13. Central liabilities were high in 1990-91 and in 2004-5. Total liabilities of both government (Centre and States) reach at the maximum in 2004-5 and after that it declines.

Fig 6: Debt (% of GDP) of Centre and State Governments during 1980-81 – 2012-13.



Domestic liabilities of the government (both State and Central Govt.) are increasing in post reform period while external liabilities have sharply declined since 1991 (Fig 7). Figure 7 displays both domestic and external liabilities of central government during 1981-82 – 2013-14. From Fig 7, it is clear that domestic liabilities of the central government reach at maximum in 2004-5 and after that it starts to decline. Now, external liabilities of the government of India are approaching towards zero, which suggest that external burden of India is the minimum and India is getting out of financial dependency structure in the global arena. It is a clear signal that India is gaining self reliance and economic power in the world.

Fig 7: Domestic and External debts of Central Govt during 1980-81 – 2013-14



Social Capital Index

Social capital is a concept of multidimensional. To capture multifaceted features or dimensions, we construct social capital index using several components of social capital.

Major components of social capital variables are assigned weight using principal component analysis. The results of the Principal Component Analysis are summarized in Table 4. The absolute value of the component loadings of all three indicators is above the critical value of 0.35 (Pennings, Keman, & Kleinnijenhuis, 1999). Hence, each of the elements loads powerfully onto one underlying component extracted from the data. Note also that with the use of all three indicators into one principal component, our index of social capital comprises both structural aspects (i.e., associational life including political involvement) and a cultural aspect (i.e., the crime rate as a proxy for social trust). Hence, our social capital index takes account of the dual nature of the concept. Using the component loading weight we have calculated social capital index (Table 4).

Table 4: Social Capital Component

A: SCindex

Component Measure	Component Loading
Vote turnover	0.5729
Econ Crime rate	-0.1601
Avg (min)Association size	-0.583
Literacy rate	0.5534
Eigenvalue	1.76948
Percentage variation	44.24

Note: SCindex is generated using above weights.

B: SC

Component Measure	Component Loading
Vote turnover (LS)	0.6113
Vote turnover (BS)	0.6032
Econ Crime rate	-0.2701
A.F. Size [Association size]	-0.4352
Eigenvalue	2.1063
Percentage variation	52.66

Note: SC is generated using above weights.

C: SCC

Component Measure	Component Loading
Vote turnover (LS)	0.6754
Vote turnover (BS)	0.6219
Econ Crime rate	-0.3040
Eigenvalue	1.8478
Percentage variation	61.59

Note: SCC is generated using above weights.

In this study we are focusing on major dimension of social capital such as associational life, cultural life etc. Major components of social capital are average household size, vote turnover, literacy and crime rate. Single social capital index is formulated assigning weights, which are taken from principal component analysis (see Table 4). Vote turnover rate and literacy rate indicate social preference of public goods through public policy in discussion.

Family size and crime rate assign negative value to social capital index. Family size is the proxy of associational life which has negative contribution to social capital index. Table 4 presents all possible combination of major component of social capital index. Among our major indicators of social capital vote turnover rate carries higher weight compare to other indicators. Negative value is associated with crime rate. It is justified because more crime rate indicates less trust prevails in the society – it is also indicate the antitrust to social development and also reveals the law and order situation or weak government and institution.

Results and Discussion

Table 5 and Table 6 describe the impact of the major components of social capita on revenue generation which is a vital component of fiscal performance. Revenue source of the states are mainly own tax and own nontax. Vote turnover rate is highly significant but its impact on revenue collection is different and in opposite direction, i.e., own tax revenue falls as vote turnover increases while own nontax revenue rises. It indicates that higher social (trust) capital reduces own tax (or direct tax) revenue. Crime rate has also positive impact on it. This suggests that as crime rate increases social general trust is reduced thereby social capital declines which forced to increase both tax and nontax revenues. More associational life reduces tax revenues whereas literacy rate has positive impact on it. ONTR declines with increasing population density and also with seat margin.

Table 5: Major dimensions of social capital and revenue performance

Variables	OTRGSDP	ONTRGSDP
Vote turn over	**-0.099*** (-9.65)**	**0.1028*** (3.07)**
Eco Crime rate	0.08496** (2.35)	0.171* (1.72)
Literacy rate	0.0433*** (3.03)	-0.066*** (-2.9)
Pop density	-0.00004 (-0.79)	-0.00031*** (-3.47)
A. F. Size	-1.2395*** (13.23)	0.31316 (0.75)
Seat margin	-0.0005 (-0.16)	-0.01229*** (-4.89)
Constant	15.56*** (11.26)	-0.902 (-0.2)
R^2	0.2252	0.0488
N	180	180

Note: Numbers in parentheses are t-values. '***', '**' and '*' denote the level of significance at 1%, 5% and 10%, respectively.

Components of social capital are replaced by social capital index and repeat the exercise and results are presented in Table 6. Combining major social dimensions all types of social capital index has indirect effect on tax revenue but direct effect on nontax revenue in India. Table 6 provides the results of social capital index (SCindex, SC and SCC) and revenue performance. Here, higher value of social index indicates higher level of social trust as proxy of higher social capital. So, more social capital suggests less direct tax burden however more nontax revenues.

Table 6: Social Capital Index and Revenue performance

A		
	OTRGSDP	ONTRGSDP
Scindex	**-0.04497*** (-4.64)**	**0.0479* (1.68)**
Pop density	0.00015*** (6.07)	-0.000298*** (-6.4)
Seat margin	-0.00006 (-0.02)	-0.0148*** (-9.21)
Constant	9.67*** (11.6)	0.306 (0.16)
R^2	0.056	0.0281
B		
	OTRGSDP	ONTRGSDP
SC	**-0.0400218*** (-3.52)**	**0.03626* (1.74)**
Seat margin	0.0001317 (0.03)	-0.000347 (-0.03)
Literacy rate	-0.030976 (-1.23)	-0.10656 (-1.34)
Lnpcsgdp	1.4182*** (3.63)	3.133** (2.53)
Lnpopdensity	0.6253*** (4.44)	-1.704*** (-3.81)
Constant	-6.846** (-2.04)	-16.64 (-1.56)
R^2	0.3209	0.1362
Adj R^2	0.3007	0.1105
N	174	174
C		
	OTRGSDP	ONTRGSDP
SCC	**-0.037174*** (-3.6)**	**0.5691* (1.74)**
....	**....**	**...**

Note: Numbers in parentheses are t-values. '***', '**' and '*' denote the level of significance at 1%, 5% and 10%, respectively.

Table 7 presents panel data estimated fiscal deficit. We compare results of pooled and random effect model in panel data analysis. Social capital determines fiscal deficit directly. Seat margin in the general election has also strong direct impact on determining fiscal deficit. It should be noted that per capita state GDP has no role in determining fiscal deficit.

Table 7: Panel data estimated [Pooled & Random Effect] results of fiscal deficit

Variables	OLS (pooled)	RE (Random effect)

SC	343.67*** (3.47)	272.72* (1.72)
Seat margin	156.8*** (4.76)	78.373** (1.96)
Literacy rate	159.79 (0.88)	-37.62 (-0.13)
Pop density	1.246* (1.65)	1.42 (0.97)
Pcsgdp	-0.0908 (-1.12)	-0.1185 (-1.07)
constant	-40438.4*** (-3.27)	-16542.4 (-0.82)
R^2	0.1045	0.0909
R^2 (between)		0.2311
R^2 (within)		0.004
N	335	335

Note: Numbers in parentheses are t-values. '***', '**' and '*' denote the level of significance at 1%, 5% and 10%, respectively.

Table 8 presents the estimated results of selected few fiscal indicators as percentage of gross state domestic product. Major fiscal variables are own tax revenue (OTR), own nontax revenue (ONTR), interest payment (IP), Non development revenue (NDR), etc. Vote margin has direct impact on all the variables except own tax revenue (OTR). So, politically social trust improves nontax revenue, interest payment, pension, custom tax and non development revenues.

Table 8: OLS estimated results of selected few fiscal indicators measured in % of GSDP

Variables	OTR	ONTR	IP	PN	CT	NDR
Vote margin	-0.062*** (-4.89)	0.3162*** (9.58)	0.0208*** (3.31)	0.0124** (2.12)	0.525*** (5.5)	0.3607*** (9.28)
Eco Crime rate	0.0738* (1.74)	0.312*** (2.82)	0.0274 (1.3)	-0.038* (-191)	-0.21703 (-0.68)	0.2107 (1.62)
Literacy rate	-0.092*** (-3.86)	-0.039 (-0.63)	0.0592*** (5.02)	0.073*** (6.64)	0.6474*** (3.61)	0.3282*** (4.5)
Pop density	-0.00009 (-0.93)	-0.0007*** (-2.8)	-0.0001*** (-2.77)	-0.0001** (-2.21)	-0.00078 (-1.08)	-0.0008*** (-2.72)
Avg Family Size	-1.358*** (-4.38)	.6637 (0.82)	0.82735*** (5.39)	0.514*** (3.59)	8.3186*** (3.56)	4.078*** (4.29)
Pcsgdp	0.00005*** (5.41)	0.00003 (1.23)	-0.00002*** (-4.99)	-.0003*** (-6.06)	-0.00032*** (-4.66)	-0.00012*** (-4.14)
Constant	17.981*** (6.85)	-2.544 (-0.37)	-5.302*** (-4.08)	-4.72*** (-3.89)	-63.105*** (-3.2)	-35.185*** (-4.38)
R^2	0.2759	0.3700	0.2828	0.3427	0.2813	0.4138
Adj.R^2	0.2508	0.3481	0.2579	0.3198	0.2564	0.3935
N	180	180	180	179	180	180

Note: Numbers in parentheses are t-values. '***', '**' and '*' denote the level of significance at 1%, 5% and 10%, respectively.

Result of interest payment is also increases with vote margin which is unexpected. Income level is also important for all the fiscal variables. Tax revenue increases with per capita state gdp which has indirect impact on interest payment, pension, custom tax and non-develop revenue. Average family size has direct effect on IP, PN, CT and NDR but indirect effect on OTR. So, associational life adversely affects direct tax while it favours IP, PN, CT and NDR. Literacy rate also behaves similar to associational life.

Tax revenue (both OTR & ONTR) increases with rising crime rate. In other word, tax revenue increases if social capital is low (i.e., crime rate increases in the society). Non development revenue increases with vote margin, literacy rate and average size of associational life. Vote margin, literacy rate and average associational life directly affect on interest payment, which suggest that educated and associated people want development and they are also ready to pay for it in terms of interest payment. In table 7, constant term is statistically significant for all variables except ONTR. It suggests that our results may improve after incorporation of other variables.

Conclusion

This study investigates social preference and governance in India. This paper examines the relationship between social choice and performance of the governments, and social institutions in India during 1990-91 – 2012-13. Social choice is reflected in people's participation in public affairs. Social capital is a promising concept, which can be defined as social network, trust and reciprocity, norms and regulations, etc for smooth functioning of the society. It is multidimensional concept but for operational purpose we measure it simply. Social trust is a proxy of social capital measuring the level of citizens' chance to express their preferences. So, the government is forced to be responsive to citizens' preferences and the underlying social contract rule, which leads to a higher level of fiscal discipline.

Our data cover major Indian states over the period 1991-2012. Using principal component analysis we construct social capital index that captures both structural and cultural aspects. In this study we are focusing on major dimension of social capital such as associational life, cultural life etc. Major components of social capital are average associational size, vote turnover, literacy and crime rate. Single social capital index is formulated assigning weights, which are taken from principal component analysis. Vote turnover is a proxy of social trust on institution and it carries higher weight compare to other indicators.

Our primary observation is that institutional performance index fluctuates and unstable during 1991-2012. In the post reform period, the performance of institution declines with fluctuation over time. Negative value is associated with crime rate, it is justified because more crime rate indicates less trust prevails in the society – it is also indicate the antitrust to social development and also reveals the law and order situation or weak governance. Fiscal institution in India becomes weak during the said periods. Group of politicians are much more interest about their local or regional issues than national issues even they are not interested to formulate regional development policy through discussion in the Parliament of India.

Vote turnover rate is highly significant but its impact on revenue collection is different and in opposite direction, i.e., own tax revenue falls as vote turnover increases while own nontax revenue rises. It indicates that higher social capital reduces own tax revenue. More associational life reduces tax revenues whereas literacy rate has positive impact on it. More social capital suggests less direct tax burden however more nontax revenues. In state panel data set, social capital increases the fiscal deficits which might be used for development activities. Fiscal deficit is actually undesirable in a liberal economy, where fiscal deficit declines with rising social capital. Otherwise, high social capital inversely affects the fiscal performance.

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