Misallocation of welfare schemes' resources

The Economic Survey 2016-17 pushed for universal basic income (UBI). The survey discussed various arguments that may be put forth for implementing UBI. It was noted that the case for UBI has been enhanced because of the weakness of existing welfare schemes which are riddled with misallocation, leakages and exclusion of the poor. The purpose of this article is to analyse resource allocation of centrally sponsored schemes (CSS) and check if indeed there is misallocation of the government's resources.

To study misallocation, district-wise spending of six top CSS (for FY16) has been studied, which accounts for more than 50% of total CSS spending. These schemes are: the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), the Sarva Shiksha Abhiyan (SSA), Mid Day Meal Scheme (MDM), the Pradhan Mantri Gram Sadak Yojana (PMGSY), the Pradhan Mantri Awas Yojana (PMAY) and the Swachh Bharat Mission (SBM).

Figure 1 shows the scatter plot of district-wise per poor spending under these six schemes against head count ratio (HCR, calculated using National Sample Survey 2011-12). Ideally, "per poor" spending should be the same across districts (black line). It should not matter whether the poor person is a resident of district A or district B, welfare spending per person should be the same. However, the actual per poor spending is downward sloping (red line). The poor belonging to a poor district receive less welfare spending than the poor from richer districts. What explains this misallocation of resources across districts? Remember that the states have to provide for a matching grant to get funds from the Centre for CSS.

States such as Bihar and Jharkhand have often represented that they have limited resources and are not able to provide the state's share to enable them to access the required funds under CSS. This is particularly important for schemes like SSA, where the counterpart funds are to the extent of 35% and the sector is extremely critical for every state. Another important factor leading to this situation is the inefficient administrative capacity of poor districts leading to poor implementation of schemes. The Economic Survey 2016-17 had observed that resources allocated to districts are often a function of the district's ability to spend them and since richer districts have better administrative capacities to effectively implement schemes, their spending on welfare schemes is relatively greater than poor districts'.

The point made above is corroborated in Figure 2. As the own tax revenue (OTR) of states goes up, their per poor spending also goes up. This happens because as the OTR of states goes up, their capability to contribute towards matching the grant for CSS goes up because of which they can get more CSS funding from the Centre.

What could be the consequence of such misallocation of resources? The Economic Survey 2016-17 made the point that misallocation of funds may lead to exclusion error. We try to provide some evidence of this for MGNREGA. We compute a district-wise share of total poor and total MGNREGA spending. If a district's share of total spending is greater than its share of total poor, it is classified as a "surplus district", otherwise a "deficit district". We find that because of misallocation, many of the rich districts are in "surplus", while majority of the poor districts are in "deficit".

In the "deficit" districts, the HCR is 38% but the active to registered workers ratio is just 33%. On the other hand, in "surplus" districts, HCR is just 22% but the ratio of active to registered workers is 50% (numbers for 2015-16). The lower active-registered worker ratio in poorer districts implies that the chances of exclusion error is higher. The same trend is observed in other schemes as well.

What should be the road ahead for the government? First, there is a need to rationalize existing welfare schemes. The Union government at present runs hundreds of social welfare schemes (675 Central sector schemes as per Budget 2017-18). A large majority of these are small in terms of allocation with the top six to seven schemes accounting for about 50% of total welfare spending. On top of this there are thousands of other schemes that different state governments run. Implementing such a large number of schemes efficiently, specially by states with weak administrative capacity, puts a tremendous burden on states.

The B.K. Chaturvedi committee report (2011) had observed that welfare and other such schemes should either be weeded out or merged for convergence with larger sectoral schemes or be transferred to states, which can then continue with these schemes based on their requirements. Small outlays anyway do not achieve the objective of making an impact across the states.

Second, UBI, as proposed by the Economic Survey in place of many of the existing schemes, is a powerful idea which must be debated. The government of Jammu and Kashmir has already taken the lead by announcing in its 2017-18 budget that it will provide UBI to all those living below the poverty line through a direct benefit transfer system. Successful implementation of the scheme in Jammu and Kashmir may inspire other states to share the fiscal burden of UBI for its implementation.

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