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GUNS VERSUS BUTTER- A COMMENTARY ON DEFENCE AND SOCIAL SECTOR SPENDING IN SOUTH ASIA

**MOHAN MANI
AND
DWIJARAJ BHATTACHARYA**



**NATIONAL LAW SCHOOL OF INDIA UNIVERSITY (NLSIU)
BANGALORE
www.mpp.nls.ac.in**

Guns versus butter – A Commentary on Defence and Social Sector Spending in South Asia¹

Mohan Mani² and Dwijaraj Bhattacharya³

Abstract

The present study is an attempt to understand government policy imperatives in the areas of defence, and social sector, among five less developed and developing economies of South Asia – India, Pakistan, Bangladesh, Sri Lanka and Nepal. The objective of the study is to link government policy to social outcomes, and therefore to critique the broad parameters that govern public policy in these countries. It further discusses the limitations placed by neo-liberal ideology that dominates policy decisions in the region, on both income and expenditure considerations for government finance.

The study also tries to understand the impact of regional relations on military and security considerations in the sub-continent; and how these considerations in turn impact democracy and public good. In the context, it seeks to evaluate the macro-economic considerations of “Guns versus Butter” which guide governments to decide on allocating finite resources between defence spending, which has limited social benefits, and the social sector.

Background

In an important study of social sector spending in Asia and the Pacific, covering 35 countries, the Asian Development Bank (ADB) in the year 2009⁴ was able to come up with some significant results. First, average social protection spending varied significantly, from 10.2% of GDP for high income countries, to 3.4% to 4% for middle income countries, to 2.6% for low income countries. Second, social protection benefits reached disproportionately large sections of the non-poor (83 percent), as compared to the poor (17 percent). The reason ascribed for this was that insurance based social protection schemes formed the predominant form of protection, and these were not available to the poorest sections of society. This is an important issue, which we shall return to in our later discussions.

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² *Visiting Fellow, Centre for Labour Studies, National Law School of India University (NLSIU)*

³ *Student, Master of Public Policy, NLSIU.*

⁴ The Social Protection Index: Assessing Results for Asia and the Pacific, June 2013, www.adb.org

The ADB devised a Social Protection Index (SPI)⁵, as a measure of public sector spending on social protection in various countries. The Index was derived by dividing the social expenditure benefits by number of intended beneficiaries, and comparing this with the poverty line index for each country, set for consistency as one fourth of the per capita GDP of the country. The SPI comprised of three components, Social Insurance (pension and health insurance), Social Assistance (targeted government benefits) and Labour Market programmes. South Asian countries were at the bottom (with the exception of Sri Lanka), on SPI scores among 35 countries of Asia and the Pacific. The average SPI score for South Asian countries was 0.061, compared to 0.077 for countries of the Pacific, .095 for South East Asian countries, 0.157 for Central and West Asia, and 0.240 for East Asia.

The average SPI score for all 35 countries was 0.11. Interestingly, the component scores were 0.075 for Social Insurance; 0.032 for Social Assistance; and 0.003 for Labour Market programmes, adding to the overall score of 0.11. We see how Social Insurance has a much higher weight, contributing to nearly 70% of the overall SPI score. A market based approach in social sector interventions in the region is brought out by this statistic, with priority to insurance based PPP models. On the other hand Labour Market interventions had negligible government spending. Labour is again clearly seen as a subject for low government intervention.

Table1 gives the country SPI scores for the five South Asian countries, and for three large Asian economies.

Table1: Social Protection Index (SPI) vs GDP (2009 USD)

Country	SPI	Ratio Social Protection expense to GDP	Per capita GDP (USD)
India	0.051	1.7%	1043
Pakistan	0.047	1.3%	926
Bangladesh	0.043	1.4%	617
Sri Lanka	0.121	3.2%	2057
Nepal	0.068	2.1%	463
Japan	0.416	19.2%	39714
China	0.139	5.4%	3734
Singapore	0.169	3.5%	35514

Source: The Social Protection Index: Assessing Results for Asia and Pacific, ADB

⁵ Ibid. The Social Protection Index was first formulated in 2005, and refined for use in 2009 to compare countries across Asia and the Pacific on social protection.

The SPI scores for South Asian countries conform to the general trend brought out from the ADB study – that the SPI is positively correlated to per capita GDP in a country. This would seem to follow an intuitive logic. With higher per capita GDP, governments are able to generate more revenues and earmark more finances for social security. However, we see there are some contradictory patterns within the figures. For instance, Nepal with a much lower per capita GDP, scores higher than India, Pakistan or Bangladesh on the SPI. Singapore with a per capita GDP more than ten times that of Sri Lanka scores only a third higher on the SPI. China and Sri Lanka have comparable SPI, while the per capita GDP of China is 70 percent higher than for Sri Lanka. What is the reason for these outliers? The reasons could be multiple and varied – the history of development, including colonial exploitation; social movements and growth of democracy; history of religious divides, fundamentalism, caste divisions; status of women in society. All these factors could also impact the development agenda, and effectiveness of government interventions for social spending⁶. Further, neoliberal economic policies and reduced government spending, which have become part of government policy in most countries, would also impact social sector spending.

There are several shortcomings in this index, as measure of social protection. First, the assumption of poverty line as a fourth of per capita GDP is arbitrary, and does not give an absolute poverty measure. Bangladesh for instance, with per capita GDP around one third that in Sri Lanka, would also for these calculations have a poverty line index one third that in Sri Lanka in exchange rate terms. Further, as the SPI is indexed to number of beneficiaries, the extent of coverage of populations in different countries under social sector spending does not get captured by the Index. However, despite these shortcomings, the SPI does allow cross country comparisons on social sector spending.

South Asia also has a history of strife and militarisation in the region. The two neighbouring countries India and Pakistan, have been at conflict since their independence in 1947, with both having nuclear capability; Sri Lanka has gone through a long period of civil war; Nepal has a history of violent struggle for replacing monarchy with democracy; and Bangladesh gained independence after a bloody war that has still left scars on the society. It is but natural that the countries spend a significant proportion of their incomes on defence. The impact of militarisation and defence on social indicators in the sub-continent would be a complex mix of various factors.

The justification of defence spending as integral to national security (both internal and external) is rarely challenged in national discourses. The global rise in jingoism and nationalism since the turn of the century, in particular after 9/11, has also been mirrored in the sub-continent. The region has been an important arena for the global rise in armed conflicts. All these factors continue to impact national imperatives.

⁶ For a discussion on the factors influencing social spending and its effectiveness, read for instance Koehler and Chopra (2014), *Development and Welfare Policy in South Asia*, Routledge, London and New York

In macro-economics, the ‘guns versus butter’ model refers to the choice before nations to decide between investment options in defence and civilian spending. Inherent in the formulation is the condition that resources are finite, and any investment decision would impact other options. To quote Prof. Laura Tyson, former chief economic advisor to President Clinton, “Guns versus butter is elementary economics: a society that chooses to spend more resources on defence and security will have less available for things like education, health, retirement security, productive investment and consumption⁷.” Or to put the emphasis differently, the Nazi Germany Minister for Propaganda said in a speech on January 17, 1936, “We can do without butter, but, despite all our love of peace, not without arms. One cannot shoot with butter, but with guns⁸.”

We would caution here that the “guns versus butter” logic is a simplistic model for determinants to government spending. Savings in military expenditure need not get channelled automatically into larger social sector outlays. Government policy making tends to be more complex. Investment and design of social assistance programmes, as well as choice of beneficiaries are often the results of complex political processes at local and national levels in countries⁹.

This paper analyses the spending of governments in South Asia on defence, and on the social sector. The analysis mainly looks at broad fiscal indicators to understand government programs and priorities. The analysis focuses on five countries in the region, India, Pakistan, Bangladesh, Sri Lanka and Nepal¹⁰. The paper is structured into three sections, Section 1 dealing with Defence; Section 2 analysing the Social Sector, with emphasis on health care and education; and Section 3 discussing the broad conclusions.

Section 1: Defence

Rationale for defence spending – the deterrence theory

One rationale given for defence preparedness is that the extent of preparedness of a country acts as a deterrent to aggression from other countries. This was most explicitly used in the background in the nuclear race between the USA and the then USSR during the cold war years. However, particularly in the context of the nuclear weapons race, many commentators now hold that rather than deterrence,

⁷ Zelizer JE (2001), The Nation: Guns and Butter: Government Can Run More Than a War, The New York Times, December 30, 2001

⁸ wikipedia.org/wiki/Guns_versus_butter_model

⁹ Pellissery and Barrientos (2013), Expansion of Social Assistance: Does Politics Matter?, Economic and Political Weekly, March 3, 2013, Vol XLVIII No.9. The authors suggest a two-way process, where political processes influence the design and implementation of social assistance programmes, and social assistance programmes in turn can impact political processes.

¹⁰ The choice of the five countries has been on the basis that all of them are SAARC countries. They represent the more stable and larger countries, in terms of population and size of the economy. The countries left out from among the SAARC nations are Afghanistan, Bhutan and Maldives. While Bhutan and Maldives are very small countries, Afghanistan is still a nation torn by daily conflicts. The discussions cannot be generalized, and need not hold for the other SAARC countries.

this race leads to the danger of catastrophic outcomes. To quote four former USA diplomats who were all war hawks, “The accelerating spread of nuclear weapons, nuclear knowhow and nuclear material has brought us to a tipping point”¹¹.

The dangers of the deterrence theory particularly hold for South Asia, where a history of tension and aggressive behaviour has fuelled an arms race. We would argue that the arms race, including the possession of nuclear deterrence with both India and Pakistan, far from creating peace through credible deterrence, has added to regional instability and a constant flash point situation along the national boundaries. The instability is not restricted to the Indo-Pak border, but has spread to the other regional borders, and even impacted internal political stability in the South Asian countries. The spread of religious fundamentalism and national chauvinism is aided by the militarisation in the region, creating internal tensions requiring further security intervention by the states within their national boundaries.

Further, the situation of arms race is a drain on the economy of the countries, taking away scarce resources that could be used in more beneficial social sector spending. To quote the former US President, Eisenhower’s, from his famous speech titled ‘The Chance for Peace’, “...every gun that is made, every warship launched, every rocket fired signifies, in the final sense, a theft from those who hunger and are not fed, those who are cold and not clothed...”¹². In a region that has among the worst social development indicators, the arms race surely constitutes a theft on the rights of common people.

A reading of history from the Great Depression years of the late 1920s and early 1930s has shown us how poverty and inequality give rise to the rise of fascist forces. Fascism gives impetus to nationalist chauvinism, creating divisions between communities within nations and across national boundaries. Militarisation also feeds into growing nationalist rhetoric in countries. The creation of the European Union with emphasis on both economic and political cooperation in the wake of the Second World War was in recognition of the fact that excessive growth of military strength could lead to resurgence in tensions between countries in the region. In the turn of the century, with the collapse of the cold war, the EU was held up as the political model for the 21st century. However, recent years have shown across the globe that nationalism and military led interventions are back on the political agenda across the world. To quote *The Economist*, “The resurgence of the nationalist style in politics became evident in 2014. In India Narendra Modi, who is often referred to as a Hindu nationalist, won a sweeping general-election victory. Nationalist parties made big gains in the elections to the European Parliament, with France’s National Front and Britain’s United Kingdom Independence Party (UKIP) topping the polls. Scottish nationalists came unnervingly close to winning a referendum on independence from the United Kingdom. Nationalist rhetoric also surged in Vladimir Putin’s Russia, as the Kremlin rallied domestic support for the

¹¹ Schultz et al (2010), How to Protect our Nuclear Deterrent, *Wall Street Journal*, January 19, 2010.

¹² Eisenhower, Susan (2011), ‘50 years later, we’re still ignoring Ike’s warning.’ *Washington Post*, January 16, 2011.

annexation of Crimea by using the Russian media to portray the outside world as hostile, even fascist.”¹³

In the context, the rise of border insecurity, internal tensions, and increasing spending by governments of South Asian countries on defence can only lead to increase in unrest in the region. Rising fundamentalist tensions, mirroring similar tensions across the globe, support political party agenda to seize and retain power in their countries. Pandering to a sense of jingoism helps them to consolidate political power, even when economic and social indicators decline for most of the population. The security establishment in the context is required as much to quell internal dissent, as to maintain show of strength along the national borders.

The following sections will examine the extent of defence spending in five major economies of the region, India, Pakistan, Bangladesh, Sri Lanka and Nepal. They will further seek to evaluate the impact of militarisation on regional development.

Extent of defence spending in the economy

Tables 2 and 3 give the expenditure on defence (including military expenses, police and jails) as a proportion of the national GDP and government spending in the countries in South Asia.

Table2: Defence budget to GDP

Country	2004-05	2009-10	2014-15
India	3.7%	3.9%	3.4%
Pakistan		3.1%	3.8%
Bangladesh	1.8%	2.1%	2.2%
Sri Lanka		3.4%	3.0%
Nepal	3.5%	3.6%	2.9%

Source: See Annex 1

Table3: Defence budget to government spending

Country	2004-05	2009-10	2014-15
India	14.5%	13.7%	11.8%
Pakistan		16.0%	22.8%
Bangladesh	12.4%	14.5%	14.5%
Sri Lanka		12.5%	11.8%
Nepal	18.1%	13.9%	10.9%

Source: See Annex 1

¹³ The Economist (2014), ‘Nationalism is back’, November 13, 2014

Two factors stand out from the comparisons. First, there appears to be a general plateauing in the extent of defence spending in the region over the last five years, when compared to the GDP and government expenditure. In India, Sri Lanka and Nepal the ratio of defence spending actually declined during the period.

Second, however, in the case of Pakistan, there is a sharp rise in defence spending as proportion of both government spending and GDP. In particular, Pakistan's defence expenditure as proportion of total government spending increased sharply by over 40 percent in the five year period from 2009-10 to 2014-15. Surely this sharp increase would crowd out the ability of the government to allocate money for the social sector and public good.

Quantifying the defence budget

While the plateauing out of the defence budget in South Asia might seem a good indicator, we need to take into account the fact that this has happened at a time when the region, in particular India, has seen healthy economic growth. The economic growth could serve to mask the absolute increase in spending on the security sector in the countries.

Table4: Defence spending in million USD at constant (2004-05) prices

Country	2004-05	2009-10	2014-15	Increase 2014-15 on 2009-10
India	27042.78	45737.19	55031.26	20.3%
Pakistan	na	4337.30	7564.00	74.4%
Bangladesh	1026.64	1868.23	3055.50	63.6%
Sri Lanka	na	1891.31	1866.66	-1.3%
Nepal	257.10	410.21	453.26	10.5%
Total for region	na	54244.25	67970.68	25.3%

Source: See Annex1, 2, 3

Table4 gives details of expenditure on defence for the countries in South Asia. The actual expenditure was converted to USD for each country taking the prevailing exchange rate for 2004-05, 2009-10 and 2014-15 (see Annex2). The Consumer Price Index in the USA was taken as measure of inflation in the dollar, and therefore the defence expenditure was calculated at constant 2004-05 prices (see Annex3). The inflation estimate would be an approximate, as this pertains to the basket of commodities particular to consumers in the USA. However this is still a good basis for comparison.

For the region as a whole, in the last five years, spending on defence increased by more than 25 percent at constant prices. This is surely an alarming increase. The three most populous countries in the region, India, Pakistan and Bangladesh, all had large spending increases. Indian defence expenditure more than doubled over the last decade, while in the case of Bangladesh there was a tripling in defence expenditure.

India contributes to 80 percent of defence expenditure in South Asia. The country clearly leads the arms race in the region. The annual spending for 2014-15 in India was more than 7 times defence spending in Pakistan. One argument could be that as has a larger population and larger area, it needs to spend more on its internal and external security. It would then follow that the per capita defence in India would be around the level of the other South Asian countries.

Table5: Military expense per person in South Asia in USD (2014-15 prices)

Country	2014-15 expense (million USD)	2014-15 pop. (million)	Spend per person (USD)
India	68403.07	1296.2	52.77
Pakistan	9401.95	194.0	48.46
Bangladesh	3797.95	158.5	23.96
Sri Lanka	2320.23	20.7	112.09
Nepal	563.40	27.1	20.79
Total for region	84486.58	1709.40	49.80

Source: See Annex1, 2, 3, 4

We see in per capita terms (see Table 5) that the spending evens out somewhat, with a lower per capita band for Bangladesh and Nepal, a middle band for India and Pakistan, and with Sri Lanka having substantially higher per capita defence expenditure. The high Sri Lankan expenditure per capita might be the result of the continuing impact of the recently ended civil war.

For the year 2014-15, Indian per capita expenditure on defence at current prices is USD 52.22, or around Rs.3300. This is higher than the regional average, and only lower than the per capita defence of USD 112.09 in Sri Lanka. The argument therefore that the higher Indian defence expenditure is skewed only because of its larger population alone does not necessarily hold true. In per capita terms, both India and Pakistan, the two countries with the largest populations in the region, have committed to high defence expenditure. Their size and strategic location in the region would also mean that internal political unrest within the countries, and external hostility between the two countries would have a profound influence on the region.

The impact of the Indian defence expenditure on common good of the population can be gauged from the poverty line measurement of the Rangarajan Commission set up by the Planning Commission. The Commission measured the poverty line for India at a per capita consumption level of Rs.16800 per annum (Rs.1407 per month – around USD 30) in urban India at 2011-12 prices.¹⁴ That is, the per capita defence expenditure represented almost two months expenditure each year for 30 percent of the Indian population who are estimated to be below the poverty

¹⁴ Report of the Expert Group to Review the Measurement of Poverty, Government of India, Planning Commission, June, 2014

line. The situation is similar with respect to the Pakistan defence budget. Around 30 percent of the population in the country lived below the poverty line calculated at Rs.3030 Pakistani Rupees (around USD 35) in 2013-14¹⁵. This is not to argue that a country does not need to take responsibility for its internal and external security. The purpose of the discussion is to put in perspective the cost paid by countries in South Asia because of the manufactured tension in the region.

Defence of internal security

Countries more and more link national security with fighting both internal and external threats. This conflating of routine law and order with more serious security threats gained greater global legitimacy with the 9/11 attacks in the USA. Governments used the “terror” threat to arm themselves with more powers to counter threats from within and outside borders. Internal security apparatus consequently got beefed up to match conventional army in fire power. Many countries also started routinely using the armed forces to handle internal unrest. The consequences included reduced democratic rights and shrinking spaces for dissent.

Table6 presents the expenditure by countries on internal security (police and jails) as a proportion of the total defence budget. Some of the entries for 2009-10 and 2014-15 are interesting and merit discussion.

In the case of India the expenditure on internal security is less than a third of the total expenditure on overall security. This might be an understatement, as the expenditure may not fully capture the states expenditure on police. It is interesting to note however that the Indian internal security cost in 2014-15 increased substantially both in absolute terms (doubled) and in terms of ratio of total defence costs as compared to 2009-10. We see over the last decade expenditure on internal security as ratio of total defence spending in India increased from a fourth to nearly a third. We had argued earlier that increased military spending contributes to heightened regional tension, and the tension could spill over to the domestic arena, increasing internal security requirements. This seems to be borne out by the Indian experience of increasing expenditure of internal security.

Table6: Internal security expenditure as proportion of total defence

Country	2004-05	2009-10	2014-15
India	24.9%	27.4%	31.8%
Pakistan	na	8.3%	8.4%
Bangladesh	40.4%	41.5%	40.9%
Sri Lanka	na	1.7%	16.8%
Nepal	40.8%	50.5%	43.0%

Source: See Annex1

¹⁵ Dawn (2016), ‘New poverty line makes a third of Pakistanis poor’, April 08, 2016

Pakistan presents an interesting picture. While the overall Pakistani defence budget increased by nearly 75 percent from 2009-10 to 2014-15, the proportion of expenditure on internal security remained surprisingly low at around 8 percent. We might infer that in Pakistan internal security is also a military subject, and there is no clear difference between internal and external security apparatus. This would also explain the strong influence of the Pakistan defence establishment on its politics.

The use of the military in civilian defence is not restricted to Pakistan in the region. In India, large sections of the population in Kashmir and the North-eastern states are covered by the Armed Forces Special Powers Act (AFSPA), which gives the armed forces substantial powers towards maintaining law and order. The use of the armed forces in civil defence has also been prevalent in post-war Sri Lanka, and in Bangladesh to put down the political unrest and rising fundamentalist violence.

The foregoing discussion has not included the extent and role of private security in the region. The - FICCI - Grant Thornton Report on 'Private security services in India' estimated the value of the private security industry in India as Rs.400000 million in the year 2014, and expected the industry turnover to double to Rs.800000 million by the year 2020¹⁶. The Indian private security industry was therefore worth 30 percent of the total internal security budget of the government for the year 2014-15.

Comparison with other countries

How does the South Asian defence spending compare with other countries? Table 8 below compares the defence spending with some of the more developed across the world.

Table7: Comparison of defence spending with other countries

Country	Defence expenditure 2016 (million USD)	GDP 2016 (million USD)	Defence to GDP spending ratio
India	56638.00	2263792.50	2.5%
Pakistan	9974.00	278913.37	3.6%
Bangladesh	3246.00	221415.16	1.5%
Sri Lanka	1741.00	81321.88	2.1%
Nepal	322.00	21131.98	1.5%
China	216031.00	11199145.16	1.9%
USA	600106.00	18624475.00	3.2%
Germany	41579.00	3477796.27	1.2%
Netherlands	9915.00	777227.54	1.3%

¹⁶ Grant Thornton (2015), 'The Indian security industry is expected to double by 2020: FICCI-Grant Thornton Report', www.grantthornton.in

Source: World Bank data for GDP at current prices from <https://data.worldbank.org/indicator>; SIPRI Military Expense Database for defence data at <http://www.sipri.database/milex>

Note that the Defence to GDP ratios in Table 7 for the South Asian countries do not exactly correspond to those in the last column of Table 2 which give corresponding figures for 2015-16. This might be partly explained as the Table 2 figures for defence also includes internal security (police and jails). Also the primary data sources for the two Tables could be different.

The figures in Table 7 allow for comparison. It is interesting to note that China with five times the Indian GDP spends nearly 4 times as much as India on defence; while India with eight times the GDP has a defence spending of over ten times that of India. It is interesting to note that Germany, a pacifist country has defence expenditure of 0.7 times that for India. One would assume that as Germany is one of the major contributors towards NATO, substantial proportion of its expenditure would be this contribution. Pakistan stands out as the country with the highest proportion of defence to GDP ratio. The arms race in the region would certainly be a contributor towards increasing Pakistan's defence spending. This would mean reduced availability of funds for public expenditure on other sectors, including the social sector. As we have discussed earlier, this does not necessarily mean that if defence expenditure declined, there would automatically be an increase in social sector spending.

Section 2: Social Security

Poverty in South Asia

South Asia is one of the regions in the world with the maximum incidence of poverty. According to World Bank data, in 2013, the number of people living below the poverty line of \$1.90 per day (2011 PPP) was 256.2 million, or 15.1 percent of the population. Table 8 gives figures for population below poverty line (2011 PPP) for the major South Asian countries.

Table 8: Population below poverty line (2011 PPP)

Country	Below poverty line (\$1.90 PPP)	Below poverty line (\$3.10 PPP)
India	21.2%	58.0%
Pakistan	7.9%	43.6%
Bangladesh	18.5%	56.8%
Sri Lanka	1.9%	14.6%
Nepal	15.0%	48.4%

**Source: Poverty and Equity Data/ South Asia/ The World Bank,
*povertydata.worldbank.org***

To give an idea of what \$1.90 PPP means in local currency, as per OECD estimates, in 2016, one dollar PPP was worth Rs.17.55¹⁷. That is, \$1.90 PPP in Indian currency would be around Rs.33.34. This works out at current exchange rates to Pakistani Rs.54.68; Bangladesi Taka 42.35; Sri Lankan Rs.79.69; and Nepali Rs.53.35.

How low this poverty line is can be seen from comparing the figure with the Rangarajan Committee poverty line estimate of Rs.46.90 per day for urban India and Rs.32.4 per day for rural India, at 2011-12 prices¹⁸. The corresponding poverty line estimates for 2016 would be Rs.68 for urban India and Rs.47 rural India in 2016, or \$3.90 PPP for urban India and \$2.70 PPP for urban India. We see from the World Bank poverty estimates over half the Indian population would be below the poverty line.

Poverty is not determined by money value of wage and expenditure alone. The subsidies available to the poor, for basic necessities, also determine the quality of their existence. In particular, subsidies for the overall welfare of the poor – be they for basic consumption goods, or housing and transportation, or health care, or education of children, all determine their living conditions. Public provisioning, and the manner in which these public goods are made available are of critical importance. We take for this discussion two areas of public services, health care and education.

Public spending on health

Public health spending was seen as an important cornerstone for development in the newly independent South Asian countries. However, by the nineties, the emphasis on public investment in health had declined. In India, while investment on public health care started around 3.3% of GDP in the First Plan, by the nineties it had declined to around 1%. In Pakistan, health expenditure was 4.5% of the GDP during 1988-90, but declined to around 1% by 1993. Some of this decline can be directly to the structural adjustment programmes of the Fund-Bank in the nineties. The policies forced the adoption of “narrow, techno-centric interventionist strategies” in health care, and opened up the health sector to private investment, along with the slow dismantling of the public sector institutions in health care¹⁹.

Only Sri Lanka, and some states in India (Kerala and Tamil Nadu) still retain a reasonable public spending on health care. Curiously, these are also the regions where high end private sector health care has developed, with better all round health infrastructure. The results are to be seen in terms of the much better health indices for these populations.

¹⁷ Conversion rates – Purchasing power parity (PPP) – OECD Data, <https://data.oecd.org/conversion/purchasing-power-parities-ppp.htm>

¹⁸ Report of the Expert Group to Review the Measurement of Poverty, Government of India, Planning Commission, June, 2014

¹⁹ Qadeer, I (2011), Public Health in India: Critical Reflections, Daanish Books

Table 9: Public health care expenditure to GDP ratio in South Asia

Country	2004-05	2009-10	2014-15
India	1.0%	1.2%	1.4%
Pakistan	0.7%	0.8%	0.9%
Bangladesh	1.0%	1.0%	0.8%
Sri Lanka	2.0%	1.5%	2.0%
Nepal	1.6%	2.8%	2.3%

Source: See Annex1

Table 9 gives details of public expenditure on health care as a ratio of the GDP in South Asian countries. The ratios remained steady around 1 percent over the last decade for the three most populous countries in the region, India, Pakistan and Bangladesh. In Sri Lanka and Nepal the corresponding ratio was around double.

Table10: Per capita public health expenditure for 2014-15

Country	2014-15 expense (million USD)	2014-15 pop. (million)	Spend per person (USD)
India	28637.05	1310.0	21.86
Pakistan	2249.55	188.9	11.91
Bangladesh	1356.67	161.0	8.43
Sri Lanka	1511.07	21.0	71.96
Nepal	448.51	28.5	15.74
Total for region	34202.85	1709.40	20.01

Source: See Annex1, 2, 3, 4

However, rather than the ratio of health expenditure to GDP, which is dependent on the GDP level, a more significant indicator is probably the per capita public health expenditure. This is an indicator more amenable to comparison across countries and regions.

Table 10 details the per capita public health care expenditure in the region. Sri Lanka has significantly higher per capita expenditure on public health. This has greatly impacted the quality and access to health care in the country. For instance, on the indicator of skilled birth assistance (SBA), Sri Lanka in 2014 had an SBA ratio of 97.4% for the poorest quintile, and 99.4% for the richest quintile; the corresponding figures were 19.4% and 88.8% in India; 29.8% and 85.2% in Pakistan; 11.5% and 63.7% in Bangladesh; and 10.7% and 81.5% in Nepal. As a result, the maternal mortality rate for live births (MMR) was lowest at 29 per

100000 births for Sri Lanka, as compared to 170 for Bangladesh and Pakistan; and 190 for India and Nepal²⁰.

As is evident from the foregoing, without government commitment to universal health care, health status becomes directly linked with income levels across population cohorts in the country. Income also impacts nourishment levels which in turn affect health status. Health impacts are most strongly felt during early infancy, and have life-long effects. In South Asia, more than a third of the children have moderate to severe stunting of growth. In Nepal and India in particular, nearly half the children under the age of five years are affected by stunting. Undernourished children are more at risk from non-communicable diseases, which can in turn result in heart and kidney ailments, diabetes and obesity²¹. Poverty and lack of livelihood and employment options are also forcing larger sections of population in Asian countries to migrate to cities, with crowded and poor living conditions, poor sanitation, and exposure to the ill-effects of urban pollution. In the circumstances, the need for health care to address chronic ailments, increasingly afflicting the young, is a pressing health concern in the region.

Government constraints on increasing budget allocations to the public sector have led to many multilateral agencies advocating a judicious combination of public and private services for health care. The advocacy is in line with the push for privatisation of many of these agencies. This is even while many agencies agree that privatised care often comes at a higher price than public provisions. While commenting on the medical programme to combat AIDS, tuberculosis and malaria in Myanmar, the ADB found cost of medicines through private sources to be four times the cost of medicine made available through the public health system. However, the Bank pointed to “constrained government budgets, protracted public procurement procedures, political interference...” as causes undermining the effectiveness of public systems. The Bank therefore advocated “public-private partnership” as the way forward to make public health systems more effective²².

The reasoning put forward to favour private services over public services in health care on grounds of efficiency is not necessarily borne out from experience. An analysis of 102 peer reviewed articles describing studies in low and middle income countries (including a third from Africa and a third from South Asia) found the private sector to be a more frequent violator of medical standards, leading to poorer patient outcomes. The private sector was also less efficient in resource utilisation, as it followed a system of perverse incentives encouraging unnecessary testing and treatment protocols. The private sector only scored better on timeliness and hospitality, that is, on indicators more related to the frills accompanying treatment²³. The analysis referred to a matched cohort study in Karachi in Pakistan

²⁰ El-Saherty et al (2014), HNPGP Knowledge Brief, World Bank Group: Health, Nutrition & Population, September 2014

²¹ Huang Y et al (2013), Health in the Post-2015 Development Agenda for Asia and the Pacific, ADB Sustainable Development, Working Paper Series, No.28, September 2013

²² ADB Briefs (2016), Strong Supply Chains Transform Public Health, Number 72, November 2016

²³ Basu S. et al (2012), Comparative Performance of Private and Public Healthcare Systems in Low- and Middle-Income Countries: A Systematic Review, PLoS Med. 2012 June; 9(6): e1001244

that found public tuberculosis care resulted in 85% higher success rate in the public sector than in private care; and to a study 120000 households in India that found that children receiving private health care were less likely to have received measles vaccination than those treated in the public system²⁴.

The political struggle within the USA on universal health care has brought out many discussions and comparisons between health care in the private and public sector. It is useful to compare the predominantly public health care system in the UK, where total health expenditure in the public and private sector in 2014 was 9.9 percent of the GDP, as compared to 16.6 percent of the GDP in the USA for the same year²⁵. There is sufficient evidence that the British public NHS system works better for the average citizen in the UK than the American largely privatised health care model. Thus, while the per capita expenditure (public plus private spending) in UK is around USD3000 per annum, as compared to more than USD 8000 per annum in the USA, the life expectancy in the UK is 81 years as compared to around 78 years in the USA²⁶.

We would therefore reiterate the following issues on the health care debate. First, evidence seems to point towards health care in the public system being more efficient than privatised health care. Second, government budget constraints leave health care outlay in the public sector very low in South Asia. The public health care to GDP ratio ranged from less than 1 percent to around 2.5 percent. In comparison, in the UK where 85%of health expenditure is by the public sector NHS, the health expenditure was 9.9 percent of the GDP in 2014. In per capita terms, the health care expenditure in the public sector was highest in Sri Lanka at around USD 72, as compared to around USD 2500 (representing 85% of total health expenditure per capita) in the UK. This is a thirty fold difference in public spending. Third, multilateral organisations refer to budget limitations and efficiency as reasons for increasing privatisation of health care in South Asian countries. They recommend “public-private partnerships”. However, these partnerships can be the method for transferring public assets at a subsidy to the private sector.

Public spending on education

Education has a significant influence on the level of health services and health outcomes in a population. Thus, in India, the state of Kerala with a literacy rate of over 90 percent has an average life expectancy of 70 years among its population; as compared to a life expectancy of 55 years in Madhya Pradesh with a much lower literacy rate. Sri Lanka with a literacy level of 90 percent of the population has an

²⁴ *ibid*

²⁵ OECD Health Statistics 2015, as quoted in NHS in Numbers, The Nuffield Trust, www.nuffieldtrust.org.uk/nhs-numbers

²⁶ OECD/World Bank data quoted in How does the US health care system compare with other countries, The Guardian, July 25, 2017, www.theguardian.com

average life expectancy of 71 years²⁷. We can reasonably also argue that greater health status in the population also results in better health of children, leading to better education outcomes. This is a virtuous and reinforcing cycle.

Education is also identified as an investment in developing human capital. A progressive education policy, which guarantees equal access to quality education for all, can also help the poor to bridge the income and health gap in society. In an essay on the potential impact of education to reduce wealth and income disparities, the author Nielson²⁸ underscored the importance of early childhood education in improving potential for children from economically and socially disadvantaged backgrounds to improve life chances. He referred to studies of long term impacts of interventions by the government in early education for children from low income and minority backgrounds in the USA showing significant decline in criminality, and improved income and health outcomes. The inferences would equally hold good for the poorer South Asian countries. Developing human capital could, in addition to reducing financial inequalities, also result in greater democracy and growth in national incomes. Public intervention in equal and universal education access can therefore pay dividends in many ways for national development. This in turn would be a function of the extent of available government finances for education programmes, and directions of education policy.

Table 11: Education to GDP ratios in South Asia

	2004-05	2009-10	2014-15
India	3.3%	3.3%	3.8%
Pakistan	1.9%	2.6%	2.5%
Bangladesh	1.9%	1.9%	2.0%
Sri Lanka	na	2.1%	1.9%
Nepal	3.2%	4.7%	4.0%

Source: See Annex 1

Table 11 tracks the budgetary allocation of governments for education in South Asia. There is a general increase in the level of government allocation for education over the last decade. However, when compared to global averages, the education budget to GDP ratio, varying between 1.9% to 4% remains extremely low. The ratio was 5.4% in the USA in 2014; 5% for Germany in 2014; 5.5% for France in 2013; 6% for Brazil in 2014; and 3.6% for Japan in 2014. The ratio in the Scandinavian countries was more than 7% of GDP. We should also take into account that the per capita GDP of these countries is significantly higher than the South Asian countries, and therefore the actual allocation in monetary terms would be that

²⁷ Hate V and Gannon S (2010), Public Health in South Asia, A Report of the CSIS Global Health Policy Centre, Centre for Strategic International Studies, July 2010

²⁸ Nielson ER (2017), Human Capital and Wealth before and after Capital in the Twenty First Century, in Bouchev H et al (2017), After Piketty, The Agenda for Economics and Inequality, Harvard University Press, Cambridge, Mass. and London, UK, 2017. The author argued that policies promoting equity in education might have greater impact than wealth tax levies suggested by Piketty to reduce societal inequalities.

much higher. A more significant determinant for measuring the effectiveness of government expenditure on education would be per capita expenditure on education.

Table 12: Per capita expenditure on education in 2014-15

Country	2014-15 expense (million USD)	2014-15 pop. (million)	Spend per person (USD)
India	78191.39	1296.2	60.32
Pakistan	6033.54	194.0	31.10
Bangladesh	3376.02	158.5	21.30
Sri Lanka	1481.61	20.7	71.58
Nepal	763.81	27.1	28.18
Total for region	89846.36	1696.5	52.96

Source: See Annex1, 2, 3, 4

We see from Table 12 Sri Lanka has a higher per capita government expenditure on education, followed by India. The expenditure per capita in the two countries is more than twice that in the other three countries in the region.

Note the per capita spend is for the whole population, and therefore will not correspond to the actual per student figures quoted from the study above. The figures in Table 12 are therefore not exactly comparable for expenditure per student. With development and lowering birth rates, the proportion of children in the total population also tends to decline. Within the sample of countries being studied, the percentage of children under 14 years age in the total population varied from 28% for India; 35% for Pakistan; 29% for Bangladesh; 24% for Sri Lanka; and 32% for Nepal²⁹. When we recast Table 12 for children under 14 years, the new per capita public expenditure estimates range from USD 73 for Bangladesh and to USD 88 for Pakistan and Nepal; to USD 215 for India and USD 298 for Sri Lanka. The per child expenditure on education by the government is therefore three times in India, and four times in Sri Lanka, as compared to Bangladesh; and only slightly less when compared to expenditure in Pakistan and Nepal.

However, expenditure on education by itself can only be a gross indicator of the education status in a country. Government policy imperatives and programme implementation processes are all determinants of education outcomes. Sri Lanka and India, with comparable per capita government expenditure on education, have very different education levels within the population.

Commitment to universal free education and health care were both key priority areas for government policy in Sri Lanka from the fifties. In the context, commentators have raised concerns at the declining government outlays for these sectors in recent times. The country's public education budget peaked at 3.34

²⁹ data.worldbank.org/indicator/SP.POP.0014.TO.ZS

percent of GDP in 1996³⁰. For the year 2014-15 the budget allocation was only 1.9 percent. However, commentators also point to the substantial investment made during the 1950s and 1960s in education infrastructure in the country. Therefore the country can today restrict its spending to recurring costs. Estimates for 2012 found recurrent costs per student as around 95 percent of per capita budget³¹. The total expenditure (recurring plus capital expense) per student varied between Sri Lankan Rupees 21000 (USD 138) and Sri Lankan Rupees 31000 (USD 204), depending on the region.

The recent trends in educational policy in Sri Lanka have raised concerns from researchers in the area. They see attempts at liberalisation of education, as part of the process of intensification of the neoliberal agenda in the country. Thus while new investment centred round upgrading infrastructure, there was no corresponding initiative for uplifting quality of education³². The concerns raised possibility of privatisation of education and making public education infrastructure transferred to private interests.

There are also regional variations in the spread of education. The Household Income and Expenditure 2009/10 Survey conducted by the Sri Lankan Department of Census and Statistics estimated 98.2 percent of boys and girls in the age group of 5-14 years were school going. However, studies also indicated higher percentage of school drop-outs among Sri Lankan Tamil children as a result of prolonged school closures in the conflict zones in the Northern and Eastern provinces during the long drawn civil war³³.

In India the government expenditure on education (Centre plus states) increased continuously over the last decade. This has led to some positive overall results. Government spending on school education alone increased from 2.1 percent of GDP in 2004-05 to 2.68 percent in 2015-16. Correspondingly, school attendance ratio for the 6-14 years age group increased from 93.4 percent in 2006 to 96.9 percent in 2016. This is a significant increase in just a decade. However, many indicators seem to show that the improvement did not percolate to quality of education and education outcomes. A report by the National Bureau of Economic Research estimated 23.6 percent of rural school teachers were absent during school inspections. Further, state governments in order to reduce fiscal deficit resorted to employing untrained contract teachers. In 2013-14 an estimated 5 lakh contract teachers taught at the elementary school level alone³⁴. The results were evident in falling education outcomes. For instance, the percentage of children in Class 5 in government schools who could read Class 2 English text books declined from

³⁰ www.indexmundi.com/sri_lanka/public_spending_on_education

³¹ The figures are based on data (see Table 3) from Ransinghe A et al(2016), Study on Investment in General Education in Sri Lanka, Research Series (2014)-No.7, National Education Commission, Sri Lanka

³² See discussions on education priorities in Sri Lanka in Wedagedara A et al (2015), Increasing the Education Budget & Merging Education and Business, Colombo Telegraph, December 15, 2015

³³ UNICEF (2013), Country Study: Out of School Children in Sri Lanka, Summary Report, UNICEF, Sri Lanka, February 2013

³⁴ Bhuyan R (2017), India's education spending needs course on accountability, Livemint, January 27, 2017

50.7% percent in 2010 to just 41.6% percent in 2016. The corresponding decline for private schools was from 64.2% to 62.9%³⁵.

When we compare the education status in Sri Lanka and India, two factors stand out. One, Sri Lanka had a long history of emphasis on education. India with a much larger and diverse population, long history of colonisation and unequal growth, cannot claim the same uniform history of emphasis on education. A comparable education status in India might be found in the state of Kerala, with a similar history of emphasis on education for both boys and girls. Second, in India, while the government had a policy of universal coverage under primary education, the route followed was a hybrid of public and private education systems. Consequently, greater spread in education outcomes is to be expected.

In comparison, with lower per capita budget on education, the performance on education in the other countries in South Asia is much worse. In Pakistan, the report on 'Public Financing of Education in Pakistan and Agenda for Education Budget 2016-17' by the Institute for Social and Policy Sciences reported that there were 24 million out of school children in Pakistan – second only to Nigeria in the world³⁶. According to the Annual Status of Education Report 2015, the proportion of out of school children in rural Pakistan in 2016 was 16.1 percent for the age group 6 to 10 years; with 13.4 percent having never been enrolled and 2.7 percent dropout. The corresponding proportion for the age group 11 to 13 years was 18.7 percent³⁷. In Bangladesh in the year 2011, 23 percent children in the age group 6-10 years, numbering around 4 million children, remained out of school³⁸.

We reiterate two aspects from the discussions in this section. First, health and education are linked, with higher education index also resulting in better health outcomes. Second, there appears to be a correlation between absolute public spending on health care and education (per capita public spending) and the health and education indicators. This is to be expected, given the majority of population in the South Asian countries still depend wholly or partly on public services.

Section 3: Conclusions

How can we analyse the 'Guns versus butter' debate for South Asia? We can, based on the foregoing discussions, venture some conclusions. First, defence spending in the region is significant. While it did not increase as proportion of GDP, most countries showed increased defence spending in absolute terms, and as per capita expenditure. The argument here is not that countries do not need to spend anything on defence. However, it is worth examining what savings in defence would

³⁵ ASER (2016), Annual Status of Education Report (Rural) 2016, ASER Centre, New Delhi

³⁶ Dawn (2016), Pakistan's education spending lowest in South Asia, April 28, 2016

³⁷ Annual Status of Education Report ASER- Pakistan 2016, South Asia Forum for Education Development, August 02, 2017

³⁸ Out- of-school children in Bangladesh, Bangladesh Institute of Development Studies, Bangladesh Bureau of Statistics and UNICEF Bangladesh, December 2014

mean for the capacity to increase social sector spending, and how, if at all, defence spending trends might have influenced social sector expenditure.

The per capita expenditure on defence, health and education, in US Dollars at constant (2009-10) prices, is detailed in Table 13. The absolute value of defence spending increased in per capita terms for all countries, except in Sri Lanka, where there was a slight spending decline. However, spending for education and health care also increased in every instance.

Table13: Per capita expenditure in USD at constant (2009-10) prices

Country	Per capita defence		Per capita health		Per capita education	
	2009-10	2014-15	2009-10	2014-15	2009-10	2014-15
India	44.37	48.23	13.73	20.19	37.23	55.13
Pakistan	27.25	44.29	7.00	10.60	22.68	28.43
Bangladesh	13.09	21.90	6.23	7.82	12.18	19.47
Sri Lanka	104.81	102.45	47.26	66.72	63.22	65.42
Nepal	16.95	19.00	13.13	15.13	21.67	25.76
Total for region	39.45	45.52	12.60	18.43	33.01	48.40

Source: See Annex1, 2, 3, 4

Defence spending across the region was significant in absolute value, and when compared to other sectors. For the region as a whole, spending on defence was almost equal to public spending on education, and two and a half times public health care spending. In the case of Pakistan, defence spending alone was more than the sum total of public education and health care expenditure.

We reiterate there would be a necessary level of defence spending, particularly for internal security. However, what would be the impact if, say, defence spending could be reduced by 30 percent and the money transferred to education and health care budgets? In the case of India, Bangladesh and Sri Lanka, the transfer of 30 percent defence budget could finance 20 percent increase in outlay for both education and health care. The corresponding figure for Pakistan is 35 percent, and for Nepal 15 percent. We should keep in mind that this transfer would have even greater value, as programme overheads are already covered in the budgets, and therefore much of the transfer could be for programme expenditure.

This is how the ‘guns versus butter’ argument could work out for the countries in the region. However, we need to once again reiterate that reduction in defence spending need not automatically transfer to the social sectors. In fact, the data in Table 13 does not indicate in any way that there was any correlation between defence spending trends and spending on education and health care. For instance, for the region as a whole, while per capita defence spending increased by 15 percent for the five year period 2009-10 to 2014-15, the corresponding increase was much greater for health care (46 percent and education (47 percent). Within countries also, trends were very varied. For instance, while Bangladesh had the highest per capita increase in defence expenditure, it also had the highest increase in per capita education expenditure in the region. Similarly, Pakistan with the second highest increase in per capita defence expenditure (62 percent) also had the highest increase in per capita health care (51 percent). Clearly there does not appear to be any direct relationship in the direction of defence expenditure and that of social sector spend, as suggested by the ‘guns versus butter’ argument.

There is however another part to the ‘guns versus butter’ argument. Militarisation in South Asia has its impact on economic growth in the region. Studies have shown that reduced military expenditure is positively correlated with economic growth, employment and per capita incomes – what is often referred to as the ‘peace dividend’. Military expenditure detracts from productive investment, and distorts resource allocations.³⁹ To take just one specific example of the peace dividend, as per an ICRIER report, the trade between India and Pakistan during the decade 2006-07 to 2016-17 increased from US\$1.67 billion to US\$2.27 billion⁴⁰. In rupee terms, taking the prevailing exchange rates for 2006 and 2016, this represented increase from INR 73.48 billion to INR 152.09 billion. In constant (2006) value terms, the trade value for 2016-17 actually declined over the decade by 10 percent to INR 67.28 billion⁴¹. The adverse political relationship between the two countries was not conducive for trade growth. The ICRIER report estimated that with peace between India and Pakistan, there was the potential for trade to increase nearly five-fold, to US\$10.9 billion⁴². This would have had substantial multiplier impact on both economies. To take one example of the multiplier effect, nearly half the Indian export to Pakistan in 2016-17 was raw cotton and cotton yarn. This would have gone as input to the garment sector which is one of the largest urban employers in Pakistan, and also source for considerable export revenue. Increased cotton availability would have been a big boost to the sector.

³⁹ Knight et al (1996), The Peace Dividend – Military Spending Cuts and Economic Growth, The World Bank Policy Research Department and International Monetary Fund, February 1996. The authors using simulation models estimated that if average military spending ratios in Asia declined to the spending ratios for the developed countries, the result long term gains in per capita GDP would be to the extent of 30-40 percent.

⁴⁰ Tanaja et al (2017), Recent Trends in India-Pakistan Trade 2016-17, ICRIER Trade Briefs

⁴¹ The 2016-17 trade figures were deflated using the Consumer Price Index (CPI) for India. Data for CPI was taken from <https://labour.gov.in/consumer-price-index>.

⁴² Taneja et al (2017) op cit

We have discussed in the foregoing the possible impacts of defence spending on other sectors of public spending; and also the impact that militarisation would have on growth in the region. We will now try to discuss the situation of social spending in the region, in particular education and health.

What would be an acceptable level of public spending for health and education? There can be no absolute value for this. Different countries have different levels of public spending, based on the ideological perspective and size of the economy. For the purpose of comparison we assume Germany as a model social democratic country, and compare Indian public expenditure on education and health care with German expenditure. Germany in 2014 had a per capita GDP of USD 47900. The public expenditure on health care was 8.7 percent of GDP (2014); on education was 2.9 percent of GDP (2013)⁴³. The PPP value of the Euro in Germany was 0.8 Euro to one USD; while the PPP value of the Indian rupee was INR 17.50 to one USD⁴⁴. Table 14 compares the per capita public expenditure on health care and education in Germany and India in (PPP) USD terms.

Table14: Comparison of public health care and education expenditure (PPP USD)

Expense head	India (PPP\$)	Germany (PPP\$)
Health care	353.37	3333.84
Education	964.84	2667.07

Source: See Annex1 for India; OECD data (data.oecd.org) for Germany

We see that the level of public expenditure per capita on health care in Germany in terms of purchasing power parity is 9.4 times that in India; and on education is 2.8 times. If India were to even raise its expenditure to match half the public spending in Germany on health care and education in purchasing terms that would mean an increase in government spending by INR 838497.6 crores (INR 8385 billion). This means increasing government expenditure as percentage of GDP from the present level of 28.5 percent to 35.2 percent. Is this feasible? To evaluate this we once again compare with Germany. In Germany in the year 2015 public spending was 44 percent of GDP⁴⁵. Therefore increasing government spending in India to 35 percent might not be an impossible target.

⁴³ The health care figures were from the World Bank (data.worldbank.org); while education figures were from the OECD ([data.oecd.org/indicators/edusource/public spending on education](http://data.oecd.org/indicators/edusource/public%20spending%20on%20education))

⁴⁴ OECD data (data.oecd.org)

⁴⁵ *ibid*

Table15: Government spending ratio to GDP for 2014-15

Country	Government spending to GDP ratio
India	28.5%
Pakistan	16.8%
Bangladesh	15.2%
Sri Lanka	25.5%
Nepal	27.0%

Source: See Annex 1

Table 15 gives details of government spending to GDP in the South Asian countries. The figures are extremely low comparable to OECD figures. The Scandinavian countries in 2015 had a government spending to GDP ratio of 48 to 50 percent; the ratio was 42.8 percent for UK; Russia had a ratio of 34.5 percent. Even in USA, the ideological champion of private sector spending, the ratio was 37.7 percent.

The reason for low ratios of government spending to GDP in South Asia is that countries have very low taxation levels. A more progressive tax regime would increase Government budgets, and make possible more welfare measures. However that would not be possible under the current dominant neo-liberal agenda in the region.

Governments are wedded to a policy of private sector led growth. They see incentives and tax breaks as necessary to fuel growth, even when this model of growth might result in greater inequality within society. At the same time, governments are also required by their international creditors to reduce inflation and target low inflation, so that they are seen as good investment destinations. However, at a time of global economic slow-down, governments are required to provide the capital, in infrastructure spending, to kick-start the economy. How can the government balance its books, when it is on the one hand required to increase spending, while on the other hand it is required to limit income from tax, or resource generation from deficit financing? One answer is reduction in social sector spending. The other is to replace government expenditure in social sector with private participation and public-private partnership (PPP) projects.

The problem with privatisation or PPP projects is that the profit motive drives programmes towards constituencies that can afford to pay. We saw in the ADB study of the social sector discussed earlier that programmes requiring payment (health insurance/ pension) were disproportionately cornered by the non-poor sections of the countries (83 percent), as compared to the poor (17 percent)⁴⁶. Further, when public programmes are no longer for universal coverage, and are

⁴⁶ The Social Protection Index: Assessing Results for Asia and the Pacific, June 2013, www.adb.org

seen as exclusively for use by the poor, they suffer from neglect. This reflects the poor political bargaining strength of poor communities in most countries. The public education and health care systems in Sri Lanka, or the National Health Scheme in the UK perform well precisely because of their universal coverage. On the other hand, in Pakistan where early childhood education schemes are covered by government schools and private schools, the richest quartile of students were disproportionately enrolled in private schools (53%) compared to the poorest quartile (19%); and private schools scored significantly higher on indicators to measure learning levels in languages and arithmetic⁴⁷. While many agencies agree that privatised care often comes at a higher price than public provisions. The example from Myanmar, where the ADB found cost of medicines through private sources to be four times the cost of medicine made available through the public health system for treatment of chronic and common ailments like TB, AIDS and malaria shows how the profit motive can lead to rampant profiteering⁴⁸.

Is there a value in economic growth terms to investing in the social sector? The argument used by Nielson in his paper debating Piketty's *Capital in the 21st Century* referred to earlier⁴⁹ would have much merit in a discussion on the social sector in South Asia. An educated and skilled workforce would contribute to better income generation, in turn increasing GDP. Sri Lanka, and Kerala in India would be examples of high education levels leading to high per capita incomes. Health status is also linked to education levels. Better health indicators would also increase potential for gainful employment and earnings over a productive lifetime. Finally, improved education levels and consequent higher income levels would also promote greater income equality in society. This can have the "collateral" benefit of lower strife in society! Surely governments can reap political and economic dividends from increased investment in the social sectors.

However, as discussed earlier, the neo-liberal argument is posited on the premise that government systems are inefficient, and privatisation or private participation is therefore necessary for improved efficiency in delivery of public goods. We have discussed how private benefits tend to be cornered by those who can afford to pay, this increasing the gap between the well-off and the deprived in society. Poverty in turn reduces the productive capacity within society, impacting economic growth. The result is reinforcement of divisions within societies, which in turn harden into majoritarianism and mutual exclusions, further promoting the growth of fundamentalism and hyper-nationalism. We see in the subcontinent the divisive impact of majoritarian tendencies in every country. The impact is felt in reinforcing a cycle of violence and hardening of borders, both within a country and between countries. Internal violence results in greater repression and curbing of democratic rights; while enmity between countries promotes militarisation and defence spending. We end up moving away from the reasonable argument that seeks to curtail defence spending in order to be able to spend more for the welfare of residents of the country. We end up with the governments and people collectively

⁴⁷ ASER-Pakistan (2016) op cit

⁴⁸ ADB Brief(2016) op cit

⁴⁹ Nielson op cit

embracing the Goebbelian argument that peace cannot be achieved without arms. Unfortunately the dominant political mood globally seems to be arraigned in favour of arms, and not peace. This cycle of thought that can only spiral into more violence and repression needs to be broken. The argument for reduced trend in defence spending is autonomous to whether such reduction would result in greater social sector spending.

Annexures

Annex 1: References for GDP/Government spending; defence spending; expenditure on education and health care:

1. www.indiabudget.gov.in
2. www.finance.gov.pk
3. www.mof.gov.bd
4. www.treasury.gov.lk
5. www.mof.gov.np
6. www.data.worldbank.org

Annex2: Exchange rates in USD

Country	2004-05	2009-10	2014-15
India (Indian rupees)	44.30	47.70	61.10
Pakistan (Pakistani rupees)	59.90	83.70	102.80
Bangladesh (Taka)	67.20	69.20	77.90
Sri Lanka (Sri Lankan rupees)	107.60	114.40	135.80
Nepal (Nepali rupees)	72.30	77.30	102.40

Source:

1. *South Asia: Exchange rate, World Bank South Asia Economic Update 2010: Moving Up, Looking East, WB 2010*
2. *CIA World Factbook, www.cia.gov*
3. *Rbi.org.in*

Annex3: Inflation rate in USA

Year	CPI
	(1982-84=100)
2004	188.9
2009	214.6
2014	234.8

Source: Bureau of Labour Statistics, US Dept of Labour, www.bls.gov.cpi

Annex 4: Population figures for South Asia

Country	Population 2014-15 (million)
India	1296.2
Pakistan	194.0
Bangladesh	158.5
Sri Lanka	20.7
Nepal	27.1
Total for region	1696.50

Source: 2014 World Population Data Sheet_ Popular Reference Bureau www.prb.org