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The Impact of New Economic Policy on Health Expenditure in India: An Analysis of Trends from 1980-2021

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Abstract

The research paper analyzes the allocation of funds for medical and public health expenditures as well as family welfare expenditures in India over a period of four decades. The findings reveal that revenue expenditure on medical and public health has consistently been higher than capital expenditure, with an overall increasing trend. This trend is particularly relevant to India's NEP, which was implemented in the early 1990s and focused on economic liberalization and privatization. The study highlights the stable nature of capital expenditure as a share of medical and public health expenditure, with a decreasing trend in recent years. Additionally, family welfare expenditure as a percentage of revenue has mostly remained stable, with capital expenditure as a share of family welfare increasing over time. The research further highlights the increasing percentage of health expenditures allocated to family welfare, while the percentage allocated to medical and public health has remained relatively stable. Given the consistent increase in medical and public health expenditures as a percentage of GDP and the decline in family welfare expenditures as a percentage of GDP, these findings have significant implications for healthcare policymaking in India in light of the NEP.

***Key Words*:** New Economic Policy, Public Health Expenditure, Revenue and Capital.

1. Introduction

A series of economic changes known as the New Economic Policy (NEP) was implemented in India in 1991 with the goal of liberalizing the economy and fostering economic growth. The healthcare industry was one of the key areas that the NEP attempted. The NEP acknowledged the requirement for greater public and private investment in healthcare to enhance population health outcomes. There is a relationship between health spending and the NEP because the program aimed to raise health spending and upgrade the healthcare system. The NEP acknowledged the importance of healthcare as a sector of the economy and the benefits of investing in it for future economic development. Due to the NEP, more money was spent by the government on healthcare, including expenditures in public hospitals, clinics, and medical schools. Also, the program promoted private investment in the healthcare industry, which fueled the expansion of private hospitals and clinics. Ultimately, the NEP and health spending are related since the latter recognized the value of spending money on healthcare to increase population health and incentive economic development. The increased health expenditure arising from

the strategy has led to improvements in healthcare facilities and services, which have had favorable effects on the health of the people.

2. Economic reforms 1991 in India

The "Economic Reforms of 1991" in India was a collection of regulations intended to liberalize and revamp the country's economy. Initiated in response to a serious balance of payment crisis, these reforms aimed to transform India's socialist economy from one that was heavily regulated to one that was more open to the world market and integrated. The main goals of the economic reforms were to encourage economic growth, combat poverty, and boost India's competitiveness in the international market. The different sectors that the reforms were focused on included trade liberalization, industrial deregulation, privatization of public sector businesses, financial sector reforms, and fiscal reforms. The Indian economy underwent major transformation as a result of the economic reforms of 1991, which raised economic growth, boosted foreign investment, and raised living standards. The reforms did, however, have some unfavorable side consequences, such as rising inequality and unemployment in some industries. Despite the difficulties, the economic reforms of 1991 marked an important turning point in India's economic history and continue to influence the direction of the nation's progress to this day.

The "High-Level Committee on Balance of Payments" was a high-level body that developed India's New Economic Policy in 1991. (Also known as the S. Chakravarty Committee). In 1985, the Indian government formed a committee to assess the nation's balance of payments position and provide solutions for the escalating crisis. Montek Singh Ahluwalia, C. Rangarajan, and Manmohan Singh, who later became the Prime Minister of India, were among the notable economists and policymakers who served on the group, which was led by Shankar Acharya. The group's 1986 report, which served as the foundation for the 1991 economic changes, was delivered by the committee. The reforms in policy were mostly carried out by Manmohan Singh, who was India's Finance Minister at the time. His proposals included deregulating the industrial sector, lowering import duties, and liberalizing trade. Along with reforming the financial sector, Singh started the privatization process. In India's economic history, the economic reforms of 1991 were widely recognized as a pivotal event, and they had a long-lasting effect on the course of the nation's development. The changes raised economic growth, increased foreign investment, and raised the standard of living for millions of people.

2.1 Objectives of New Economic Policy 1991

Several goals of the New Economic Policy of 1991 included modernizing and liberalizing the Indian economy. Among the policy's main goals were the following:

- ❖ Promoting economic growth: The policy's goal was to make India's economy more open and market-oriented, which would help it expand and make it more competitive abroad.
- ❖ Poverty reduction: The policy's objectives included boosting entrepreneurship, boosting foreign investment, and enhancing economic efficiency in order to improve employment possibilities and lower poverty.
- ❖ Improving efficiency: The strategy attempted to lessen the role of the state in the economy and to encourage competition and efficiency by deconstructing the licensing system, promoting private investment, and selling state-owned businesses to the private sector.
- ❖ Increasing foreign investment: Through liberalizing trade, enhancing the environment for investments, and modernizing the financial sector, the policy attempted to attract foreign investment.
- ❖ Reducing fiscal deficit: The policy's objectives included streamlining the tax code, boosting tax income, and cutting back on government spending.

In general, the New Economic Policy of 1991 sought to establish a more liberal and market-oriented economy that would foster economic development, lessen poverty, and improve India's competitiveness in the international market. The program significantly altered the Indian economy, boosting foreign investment, driving up economic development, and raising living standards.

3. Branches of New Economic Policy 1991

The Indian economy was intended to be liberalized and modernized through a number of branches of the New Economic Policy of 1991. The following are some of the major policy branches:

1. Liberalization of Trade: This division focuses on lowering import tariffs and removing trade prohibitions in order to improve competitiveness and efficiency. The program sought to integrate the Indian economy into the global economy by increasing exports and foreign investment.
2. Industrial Deregulation: This division focuses on eliminating the licensing system and encouraging private investment to promote competitiveness and efficiency. The strategy aimed to diminish the state's influence in the economy and encourage entrepreneurship and innovation.
3. Privatization: This department focuses on selling state-owned firms to private entities in order to increase efficiency and reduce government spending. The objective of the policy was to lessen the burden of the public sector on the economy and to foster competitiveness.
4. Financial Sector Reforms: This division focused on modernizing the banking industry to increase competition, efficiency, and foreign investment. The policy sought to modernize and make the financial sector more responsive to the requirements of the economy.
5. Fiscal Reforms: This division focuses on streamlining the tax system, boosting revenue collection, and reducing the budget deficit. The objective of the strategy was to strengthen the government's financial health and foster economic stability.

The New Economic Policy of 1991 aspired to build a more open and market-oriented economy that would encourage economic growth, decrease poverty, and boost India's worldwide competitiveness.

4. New economic Policy 1991 impact it's on health expenditure in India

The New Economic Policy (NEP) is the name given to a package of economic changes that were put into place in a number of nations throughout the 1980s and 1990s, including India, China, and several Eastern European nations. The precise impact of the NEP on health spending may vary depending on the policies and context unique to each nation, but in general, there are a few potential ways that the NEP could affect healthcare expenditure:

1. Reduced government funding for healthcare: One of the key objectives of the NEP was to cut back on government spending and boost private sector involvement in the economy. This might result in less money being provided by the government for medical care, which might mean fewer overall health expenditures.
2. Increased out-of-pocket spending: If government support for healthcare declines, individuals may be forced to pay more out-of-pocket for healthcare services. Overall health spending may rise as a result of this, but individuals who cannot afford medical care may have less access to care as a result.
3. Increased focus on efficiency and cost containment: The NEP frequently included initiatives designed to improve efficiency and lower costs across a number of economic sectors. This might result in more attention being paid to healthcare cost containment, which might lead to a decline in overall health spending.

The New Economic Policy, which was put into place in response to a global economic slowdown, was created to encourage economic growth and development by limiting government intervention and boosting market forces. Reducing government spending on numerous programs, including healthcare, was one of the main ways the NEP accomplished this. Reduced financing for healthcare can have a substantial influence on total health expenditures because it is one of the largest areas of government spending in many nations. For instance, the NEP caused the government funding for healthcare in India to drop from 1.3% of GDP at the beginning of the 1980s to 0.9% by the middle of the 1990s. A rise in out-of-pocket healthcare spending, which increased from 3.5% of GDP in 1985 to almost 5% by the middle of the 1990s, coincided with this reduction in funding. The NEP had some positive effects on health spending as well, it is important to note. The emphasis on cost control and efficiency may also lead to advancements in healthcare administration and delivery that would lower overall healthcare costs while preserving or even enhancing health outcomes. For instance, the NEP in India resulted in the creation of the National Health Policy in 1983, which sought to enhance healthcare delivery and access through a number of methods, such as the promotion of basic healthcare and the hiring of community health workers. In some

situations, the NEP also resulted in a rise in the private sector's involvement in the healthcare industry, which would raise overall health spending, especially among those who could afford private healthcare services. This creates issues of equity and access to healthcare, though, as people who cannot afford private healthcare may be left without access to sufficient medical care. Overall, the New Economic Policy's effect on health spending is intricate and diverse, and it will vary depending on a number of variables, such as the exact policies put into place, the extent of government engagement in healthcare, and the nation's overall economic situation.

5. Review of Literature

The impact of these reforms on health has been studied extensively. Here are a few examples of literature on the topic:

1. K. Srinath Reddy., and K. Shahabuddin. (1996). This paper examines the impact of NEP on health in India, focusing on changes in health spending, health outcomes, and health policy. The authors argue that NEP has had both positive and negative impacts on health in India, with increased access to medical care and improved health outcomes in some areas, but also increased health inequalities and a decrease in the availability of public health services.
2. S. Selvaraj., and S. Karan. (2016). This paper evaluates the impact of the Rashtriya Swasthya Bima Yojana (RSBY), a publicly-financed health insurance scheme introduced in India in 2008 as part of NEP. The authors argue that the RSBY has been ineffective in improving health outcomes and reducing health inequalities, due to issues such as low coverage and inadequate benefit packages.
3. R. Balarajan., et al. (2011). This paper examines the impact of NEP on health care and equity in India, focusing on issues such as health financing, health infrastructure, and health workforce. The authors argue that NEP has led to increased private sector involvement in health care, but has also widened health inequalities and decreased access to health care for marginalized populations.
4. Dandona, R., et al. (2017). analyzed the trends in health expenditure in India between 1995 and 2014. The study found that there was a significant increase in out-of-pocket health expenditure and a decrease in government spending on health after the implementation of the NEP. The authors suggested that these changes may have negatively impacted the accessibility and quality of healthcare services for low-income individuals.
5. Baru, R., et al. (2010). examined the impact of the NEP on the health sector in India. The study found that the NEP led to a shift in health financing from the public to the private sector, resulting in increased out-of-pocket health expenditure for households. The authors also noted that the NEP had a negative impact on the availability and quality of public healthcare services, particularly in rural areas.

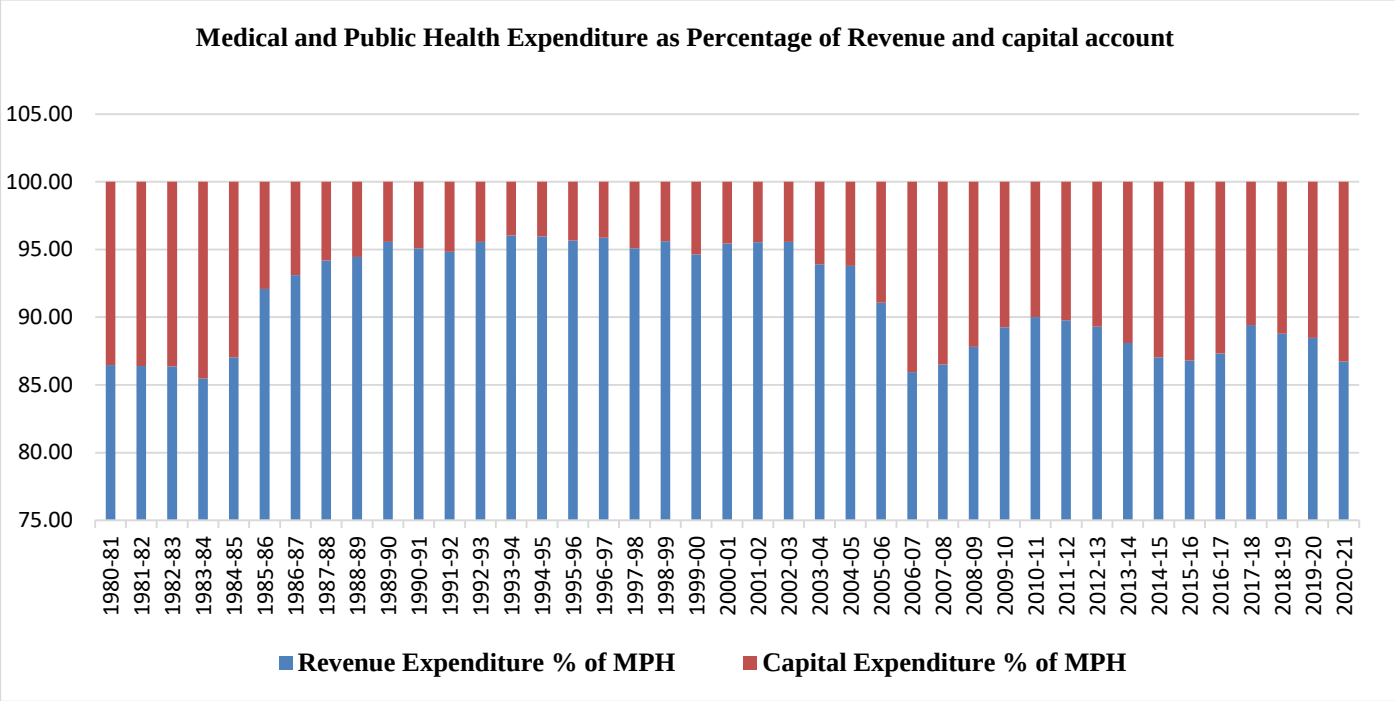
6. Data and Methodology

The study is based on secondary data drawn from various sources. The major sources of data would be the Reserve Bank of India Bulletin, the Economic Survey, working papers, research papers, Bulletin, the Economic Survey, working papers, research papers, articles, etc. The data limitation on health expenditure allows us to consider the period from 1980–81 to 2020–21. The lack of family welfare expenditure data available is considered for the period of time from 1995–96 to 2020–21.

7. Data Analyses

- **Medical and Public Health Expenditure on Revenue and Capital Account in India.**

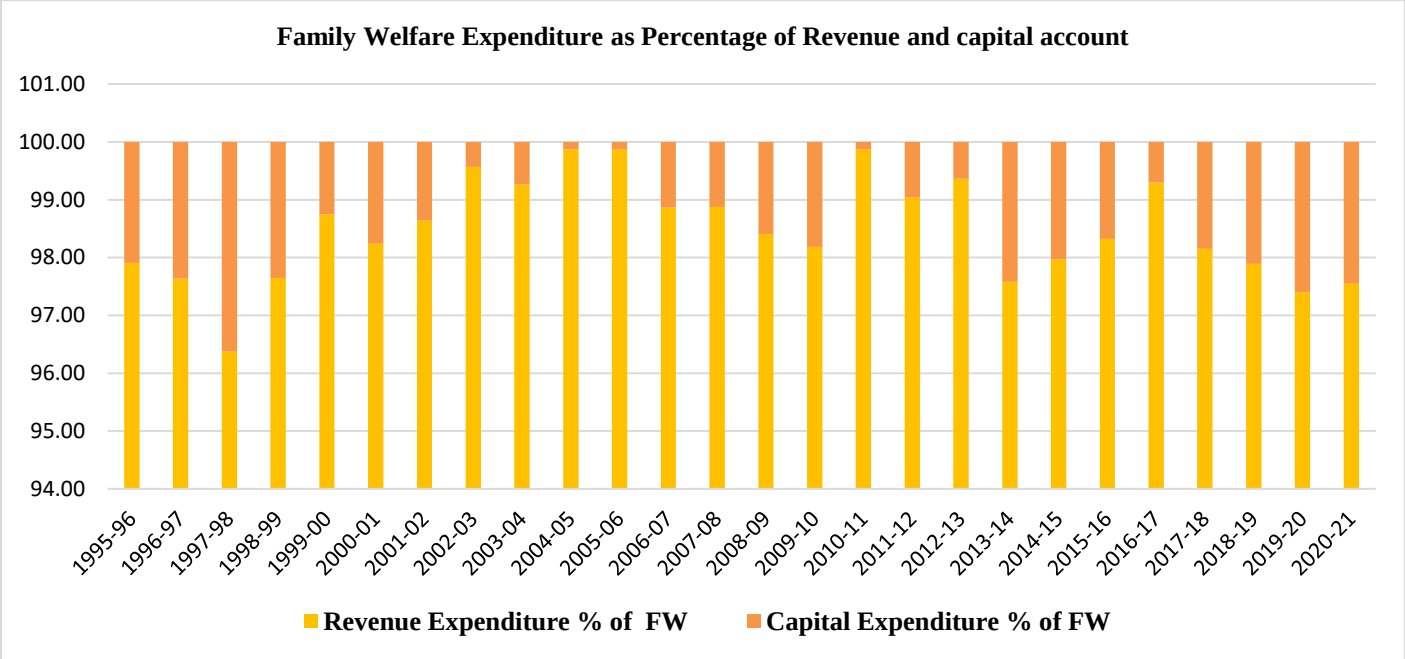
Figure-1. Medical and Public Health Expenditure as Percentage of Revenue and capital account in India during 1980-81 To 2020-21.



This Figure shows annual medical and public health expenditures during 1980–1981, subdivided into revenue and capital expenditures. The term "revenue expenditure" is used to describe the government's regular outlays on services as wages, maintenance, and supplies required to maintain public and private healthcare operations going efficiently. The term "capital expenditure" describes the allocation of funds for the purpose of purchasing or developing physical assets. After the New Economic Policy was established in the 1990s, the percentage of revenue spent on medical and public health has always been high, ranging from 85.46 percent in 1983–84 to 96.0 percent in 1993–94. In recent years, the percentage has been continually increasing. In 2019–20, it was 88.48%, but it declined to 86.73 % in 2020–21, Because of happened because the COVID–19 pandemic impacted the economy. Even so, capital investment as a share of medical and public health expenditure has been rather stable throughout time, ranging from 3.96 percent in 1993–1994 to 14.06 percent in 2006–07. During 2010-2011 to 2019-2020, the percentage went from a peak of 14.06% in 2006-07 to a low of 10% in 2010-2011, with intermediate lows around the 10% level. The rate was raised to 13.27% in 2020-21. The table provides an overview of the general trends in revenue spending relative to medical and public health expenditure in India during the past four decades.

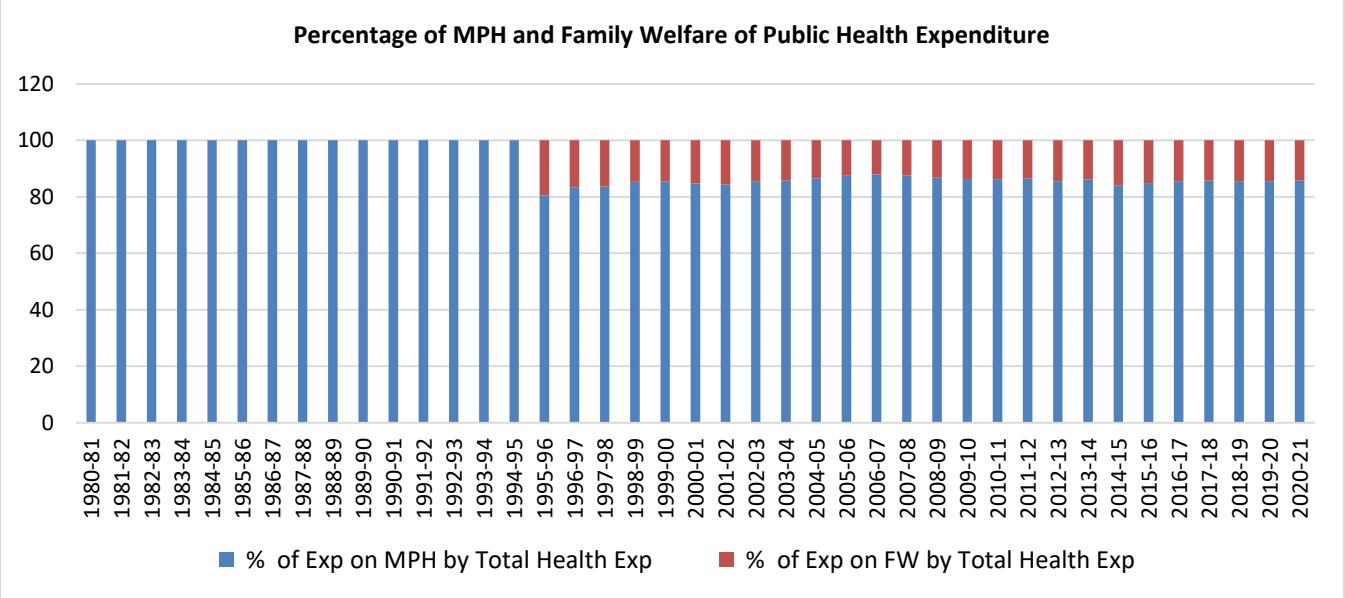
- **Family Welfare Expenditure on Revenue and Capital Account in India**

Figure-2. Family Welfare Expenditure as Percentage of Revenue and capital account in India during 1995-81 To 2020-21.



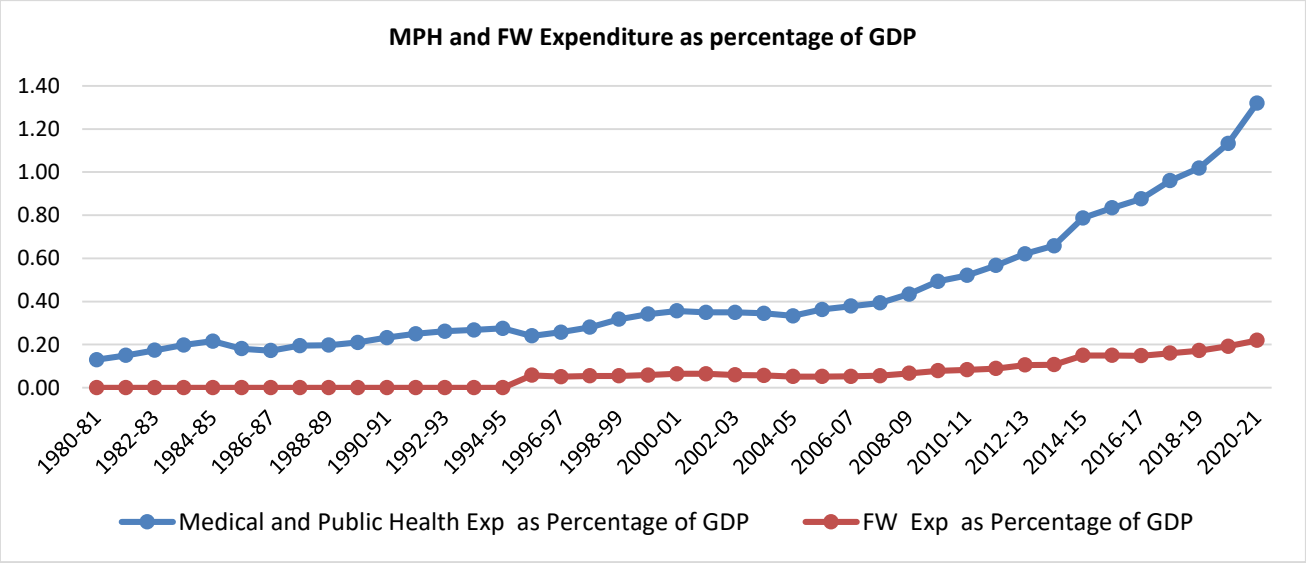
This figure shows the revenue and capital expenditure as a percentage of family welfare for every year from 1995–1996 through 2020–21. With some minor variations over the period, the revenue expenditure as a percentage of family welfare has mostly remained stable. From 96.37% in 1997–1998 to 99.87% in 2004–05, 2005–06, and 2010–11, the percentage increased. It has maintained over 97% for most of the years, indicating that a substantial amount of the revenue has been set aside for family welfare. Even so, there have been some situations where the percentage has been lower overall, like in 1997–98 and 2013–14. Over time, overall capital expenditure as a share of family welfare has increased. The proportion has changed between 3.63% in 1997–1998 and 0.13% in 2004–2005, 2005–2006, and 2010–2011. The percentage has usually been low as compared to the revenue expenditure as a percentage of family welfare, although there have been some differences between such sides.

Figure-3 Percentage of MPH and Family Welfare of Public Health Expenditure



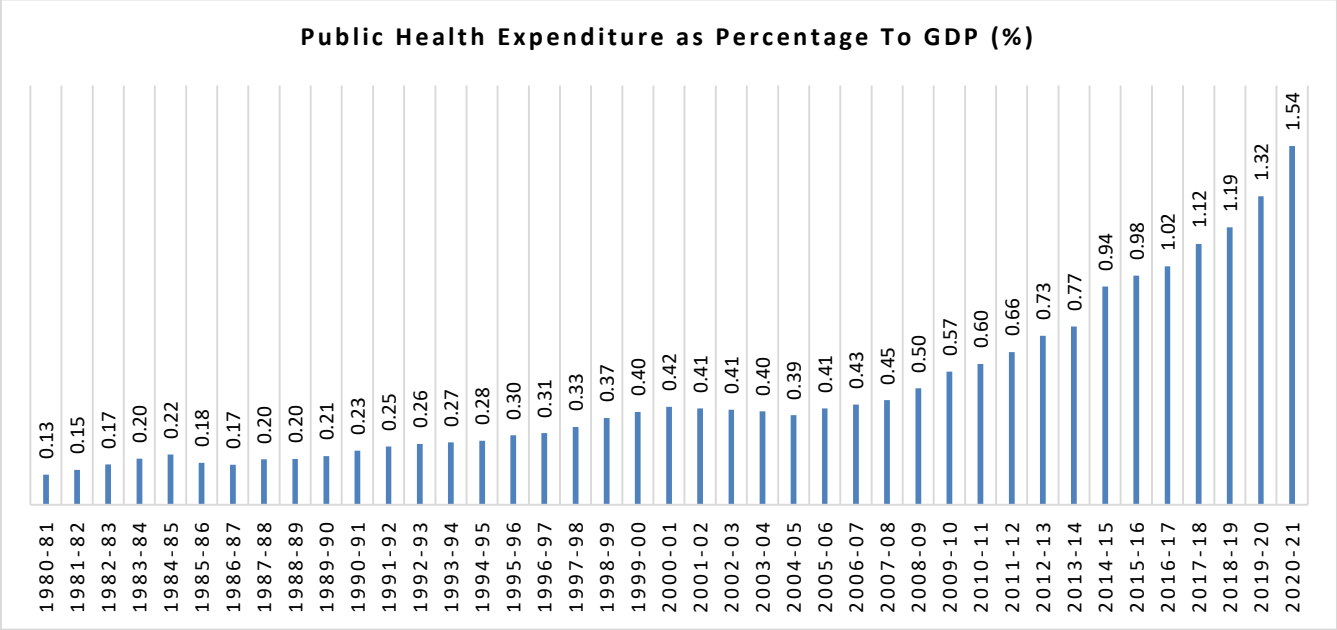
This figure shows the percentage of India's total health expenditure devoted to medical and public health and family welfare from 1980–81 to 2020–21, a duration of 41 years. From 1980–1981 to 1995–1996 all health expenditures were allocated to medical and public health, with no budget available to family welfare. However, beginning in 1995–96, a percentage of health expenditures were allocated to family welfare, with the percentage increasing from 19.42% in 1995–96 to 15.22% in 2015–16. The percentage of expenditures allocated to medical and public health has changed over time, with a high of 87.87% in 2006-07 and a low of 80.58% in 1995-96. Similarly, the percentage of expenditures devoted to family welfare has changed, reaching a high of 19.42% in 1995–96 and a low of 12.13% in 2006–07. Overall, the table indicates that the percentage of health expenditures allocated to family welfare has increased over time, while the percentage allocated to medical and public health has remained relatively stable.

Figure-4 Medical and Public health and Family welfare Expenditure as percentage of Gross Domestic Product (GDP)



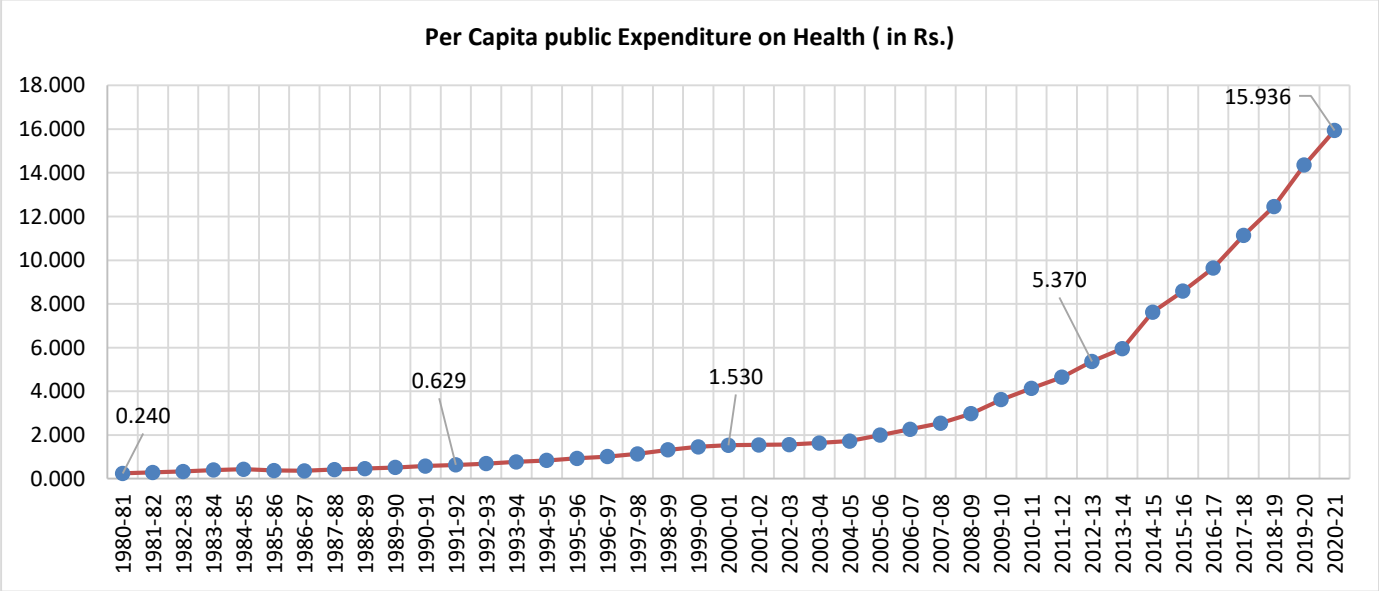
This figure shows the medical and public health expenditures and family welfare expenditures as a percentage of India's GDP from 1980–81 to 2020–21. The "Medical and Public Health Expenditures as a Percentage of GDP" paragraph shows the overall percentage spent by the government on healthcare and public health initiatives, including investments in medical infrastructure, salaries of healthcare workers, and other related expenses. This expenditure is represented by a percentage of the country's gross domestic product (GDP), which is the total value of all goods and services manufactured within its borders in a given year. The paragraph titled "Family Welfare Expenditures as a Percentage of GDP" shows the expenditure on family welfare programmes, including such things as family planning, maternal and infant healthcare, and other services related to reproductive health. Medical and public health expenditures as a percentage of GDP have increased consistently over the years, from 0.13 percent in 1980–81 to 1.32 percent in 2020–21. This indicates that the government is spending more on healthcare and public health initiatives, which could have a positive effect on the population's health and well-being. In comparison, family welfare expenditures as a proportion of GDP have increased but remained relatively low throughout the years. It started to indicate some growth from 1995–96 onwards, with an increase from 0.06% to 0.15% in 2014–15, and has remained the same in subsequent years. This table provides an overview of the government's healthcare and family welfare expenditure priorities in India over the past few decades.

Figure-5 Public Health Expenditure as Percentage to GDP (%)



This figure shows India's public health expenditures as a percentage of GDP from 1980–81 to 2020–21. Public expenditures on health refer to the amount of money invested on healthcare services and infrastructure by the government. Gross domestic product is the total value of products and services produced by a nation during a particular period of time. Based on the data, the proportion of GDP allocated to public health has steadily increased over time. In 1980-1981, only 0.13 percent of GDP was spent on health care; by 2020-2021, that percentage had increased to 1.54 percent. The increase in public health care spending is a positive indicator for the nation's overall healthcare system. It indicates that the government is putting a stronger focus on healthcare infrastructure and services, which are important to the well-being of its citizens. According to the World Health Organisation, there is still a long way to go before health spending achieves the specified 2.5% of GDP level.

Figure-6 Per Capita public Expenditure on Health (in Rs)



The figure shows the per capita public health expenditures in India from 1980–1981 to 2020–2021. The New Economic Policy (NEP) of 1991 refers to a series of liberalization and deregulation economic reforms implemented in India. The NEP had a considerable impact on public expenditures, such as health expenditures. Previously to the NEP (1991), India's per capita public health expenditures were comparatively low, rising from Rs. 0.240 lakh in 1980–81 to Rs. 0.629 lakh in 1991–92. After the NEP was implemented, however, there was a

significant increase in public health expenditures. In the years that followed, the per capita health expenditure increased significantly, from Rs. 1.530 lakh in 2000-01 to Rs. 5.370 lakh in 2012-13. So many factors can contribute to the increase in public health expenditures following the NEP. One of the primary goals of the NEP was to promote economic growth and development, which in turn increased government revenues. This allowed the government to invest more in public services such as healthcare. Furthermore, the shift to a market-based economy led to an increase in private investment in healthcare. This allowed the government to concentrate its resources on areas where private investment was insufficient, such as rural healthcare and primary care. The NEP had a considerable impact on India's public health expenditures, resulting in a substantial increase in funding for healthcare services. Despite this improvement, India still faces significant barriers to providing universal access to quality healthcare, especially in rural areas and among the disadvantaged.

8. Conclusion

The analysis of the data reveals some interesting patterns in India's healthcare and public welfare spending over the past four decades. Despite facing economic challenges and the COVID-19 pandemic, the government has maintained a consistent level of capital investment in medical and public health services. However, the percentage of revenue allocated to these sectors has fluctuated, with a slight decrease in recent years due to the pandemic. Conversely, there has been a steady increase in spending on family welfare, which could suggest that the government is recognizing the importance of investing in preventative measures. This trend towards more investment in healthcare and public health initiatives is encouraging, as it could lead to improved health outcomes and quality of life for the Indian population.

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