

Evaluation of Social Sector Spending of India: A Thematic Literature Review

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Abstract: *Social sector spending is critical for improving human development, reducing inequality, and inclusive growth in India. The study used secondary sources, including Google Scholar, ONOS, ResearchGate, and other academic journals, to compile a thematic literature review spanning the years 2001 to 2025. The review classified studies into three themes: a) The Composition and Shifts of Social Sector Spending in India, b) The Impact of Social Sector Spending on Human Development in India, and c) To evaluate the relationship between Social Sector Spending and Economic Development in India. The study finds that while social sector spending has increased over the years, it shows that revenue expenditure is higher than capital expenditure. An increase in revenue expenditure restricts long-term developmental impacts on human development. The study also reveals that there is a direct correlation between social sector spending and human development during the period under study. Some studies have highlighted adverse factors, including efficiency, governance, and regional disparities, which have hindered social progress. Furthermore, it was also observed that the relationship between social sector spending and economic development is complex, displaying both short-term and long-term variations across different sectors. Hence, the study concluded that there is a need for effective implementation of policies, better allocation, and improved governance of social sector spending to achieve sustainable development and equitable growth in India.*

Keywords: Social Sector Spending, Human Development, Economic Development

1. Introduction

Social Sector Expenditure includes health, sanitation, education, housing, and social welfare that directly improve the lives of people. It also covers sports and culture, skill development, poverty reduction, and tribal and minority affairs. Economic theory explains the positive relationship between social sector spending and human development. The theory explains that an increase in social sector spending reduces economic inequality and helps to improve human development. Hence, over the years, India has specially implemented the budget for each part of the social sector.

Additionally, the connection between public spending and developmental outcomes in India has attracted significant research interest in the context of the ongoing problems like poverty, inequality, and regional disparities in the nation. Therefore, public expenditure on the social sector plays a crucial role in addressing these challenges.

The theoretical background explains that social sector spending is based on Keynesian economics, which supports government spending to encourage economic activity, and Wagner's Law suggests that a rise in public expenditure leads to economic expansion. Also, the human development approach explains that investment in health and education is crucial for making people capable and improving their overall welfare.

Therefore, to evaluate efficiency, government spending, and the overall effect of the social sector in a country, the present literature review is based on the existing research that used the time period from 2001 to 2025, and classified into three themes as follows:

a) The Composition and Shifts of Social Sector Spending in India,

- b) The Impact of Social Sector Spending on Human Development in India, and
c) To evaluate the relationship between Social Sector Spending and Economic Development in India.

2. Need for the Study

Although the government continues to spend on each sector, such as health, education, water, and sanitation, there are still disparities between states and regions. This reflects and suggests that resources are not used efficiently.

Therefore, it is essential to examine and analyse the trends and efficiency of social sector spending, as it plays a crucial role in enhancing the quality of life, reducing poverty, and promoting sustainable growth. Therefore, the purpose of the study is to fill the gaps in understanding regarding the relationship between social sector spending and its development. Further, this study will help to create effective and fair investment plans to improve human development and promote regional growth in India.

3. Objectives

- To examine the Composition and Shifts of Social Sector Spending in India.
- To analyse the impact of Social Sector Spending on Human Development in India.
- To evaluate the relationship between Social Sector Spending and economic development in India.

4. Research Approach

This study adopts a thematic literature review approach to analyse the trends, composition, and impact of social sector spending in India.

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4.1 Literature Identification and Search Framework

To carry out the thematic literature review, relevant literature was collected on the topic of social sector spending in India from multiple academic platforms such as Google-Scholar, Research Gate, Sage Publications, ONOS, searched with different combinations of keywords related to social sector spending of India and found paper on social sector spending, trends and pattern and composition of social sector spending, social sector spending relation with human development, and economic development, etc, all the paper are covered only country level.

4.2 Selection of Studies

Initially, a large number of studies were found related to social sector spending in India. Then, after removing duplicates and irrelevant papers, approximately 25–30 relevant studies are selected for detailed analysis.

4.3 Inclusion Criteria

The studies included in the literature review were based on the following criteria:

- **Time period:** The studies cover the publications that were made from 2001 to 2025 (25 years).
- **Sample Selected:** The paper primarily focuses on a comprehensive country-level analysis of social sector spending, encompassing health, education, sanitation, and welfare in India.
- **Topic Included:** Social sector spending, trends and pattern and composition of social sector spending, social sector spending relation with human development, and economic development.

4.4 Exclusion Criteria

The studies excluded in the literature review were:

- The study excluded the research that was conducted on social sector spending at the country level, countries other than India, and the comparison of India with other countries.
- The study excluded the research paper that was published before 2001 and ignored the role of the economic sector of India.
- Studies published in languages other than English were excluded due to accessibility constraints.

5. Thematic Analysis

Social Sector Spending in India refers to government spending on the sector, which helps to improve human development. The total budget is distributed between the state and central government for the target of human resource development.

The Union budget reports reveal that the Union government's total expenditure increased by approximately 5-7 percent and increased by Rs. 50.65 lakh crore in the year 2025-26. The social sector spending of gross domestic product was 2.9 percent in 2014-15 and 2.4 percent in 2024-25. Overall contribution of the total budget to different areas of the social sector spending for the period 2014-15 and 2024-25 is as

follows: Education, Arts and Culture (20 and 15 percent respectively), Medical Public Health and Family Welfare (9 and 15 percent respectively), Housing, Urban Development, Water and Sanitation (9 and 21 percent respectively), Rural Development (19 and 20 percent respectively), Food Subsidy and Civil Supplies (32 and 23 percent respectively), and others (both 11 percent).

The Thematic Analysis is done based on the existing research that used the time period from 2001 to 2025, and classified into three themes as follows:

- a) The Composition and Shifts of Social Sector Spending in India
- b) The Impact of Social Sector Spending on Human Development in India, and
- c) To evaluate the relationship between Social Sector Spending and Economic Development in India.

5.1 Composition and Shifts of Social Sector Spending

It was found that social Sector spending in India has shown a consistent upward trend, with education and healthcare having the largest share among others. However, capital expenditure remains low compared to revenue expenditure, limits infrastructure development (Purohit, 2014, and Chattopadhyay, 2017), and revenue expenditure dominates more than 90 percent, constraining long-term human capital formation. Additionally, in a few states, it also changes from productive investment to populist spending (Mahapatra and Sahu, 2024). Additionally, despite nominal increases in budget, sectors like water supply and sanitation have experienced declining relative shares (Shukla, 2021). Further, Premaltha (2020), also found that 89 to 94 percent of expenditures are on revenue account, while 5 to 11 percent is spent on capital account, which reflects low investment in long-term social infrastructure. The study also examined the pre-reform and post-reform periods for the time period 1980-1991 and 1991-2011, respectively. The periods have a trend that social expenditure is largely dominated by revenue expenditure compared to capital investment (Dev and Mooij, 2004)

The study provides fundamental analysis using parametric and non-parametric methods, including stochastic frontier estimation and free disposable hull analysis, and found inefficiencies in the distribution of resources in the education and health sectors. Further, research revealed that efficiency analysis has significant scope for improvement, especially in the health sector, where input utilisation varies widely across states (Purohit, 2014). Moreover, the study highlights that persistent and significant interstate disparities exist between social expenditure and human development indicators. States such as Kerala and Himachal Pradesh consistently outperform Uttar Pradesh and Bihar, and the ranking of expenditure and outcomes remains stable over time, indicating structural inequalities. (Sethi and Kaur, 2008, and Naresh Kumar, 2017). In contrast, Reddy and Narsi (2019) found that medical and public health expenditure shows a positive effect on human development, whereas education expenditure shows a positive but insignificant impact. Hence, it concluded that Reddy determines which sectors provide significant returns, whereas Purohit determines the extent of efficiency.

Sector-based observations analysis shows that health expenditure positively correlates with improved life expectancy, but some external factors adversely affect it, such as high out-of-pocket expenditure and uneven public investment (Srivastava, 2023). Furthermore, education expenditure has a positive impact on enrollment and literacy, but it suffers from infrastructure and quality disparities (Baxi, 2019). On the other hand, it was also found as increase in social expenditure, water supply, and sanitation in Uttar Pradesh remains underfunded and ineffectively allocated. Further, more importantly, it is also found that the share of water supply and sanitation expenditure in social expenditure is decreasing, which also adversely affects human development. Additionally, per capita water supply and sanitation expenditure remained inconsistent and showed slight increases after the introduction of the Swachh Bharat Mission (Shukla, 2021).

Overall, it is observed that social expenditure is strongly influenced by fiscal capability, political regimes, and external economic factors (Mohanty, 2023, and Shukla, 2021), although wealthier states often spend more resources. Some researchers indicate that there is an inverse correlation between economic development and increased social investment.

5.2 Social Sector Spending and Human Development

Reddy and Narsi (2019) found that medical and public health expenditure shows a direct effect on human development, whereas education expenditure shows a direct but insignificant impact. Furthermore, Mittal (2016) found a direct correlation between per capita social expenditure and human development index across Indian states, but a weak correlation suggests that other factors like efficiency, governance, etc also affect human development.

Further, another study by Kumar (2017), a researcher, constructed a social development index with twelve parameters related to housing, work, education, health, and nutrition. The results reveal that the growth rate of the social development index (5.35 percent) is significantly lower than that of per capita net national product (approx.17 percent), development expenditure (approx. 20 percent), and non-development expenditure (approx. 21 percent), and it suggests that economic development is not transforming properly into social development.

In his case study of Gujarat from 2004-05 to 2013-14, Baxi (2019) uncovers a 'development paradox' where the state experienced significant economic development, rising from 6th to 3rd in per capita NSDP, yet its Human Development Index (HDI) rank declined despite slight HDI value improvements. Gujarat's ranking in health indicators was also decreasing, and it became worse, at one time, with issues like anemia and sex ratio falling below the national average. The study connects the differences to inefficiencies in implementation, improper program design, unequal resource distribution, and governance challenges that delay potential improvements, despite Gujarat being ranked among the top five states for per capita social sector expenditure.

Further, Deb (2025) analysed budget estimates for 2023-2024 and found a significant difference between states of India in social sector expenditure. Their study shows that some states spend a larger proportion of their budget on education, which helps in human capital formation, whereas others spend more on health and family welfare. Hence, it reflects the differences in policy and its development across the states of India.

5.3 Social Sector Spending and Economic Development

Under this section, the study found that the connection between spending on the social sector and economic development is challenging. According to Sinha (2023), for the period from 1972 to 2020, there is a two-way relationship between per capita GDP and spending in urban development, housing, education, family welfare, nutrition, water supply and sanitation, social security, labour welfare, and welfare of scheduled castes and scheduled tribes, and a one-way connection from health spending to economic development.

In support of Sinha, Ray, and Sarangi (2021) confirmed a long-term balance between social sector spending and economic development. They found the bidirectional causality for several sectors and the unidirectional causality for health. Conversely, Singh (2018) observed no connection between public expenditure and national income in Haryana, indicating that state-level dynamics might differ significantly from national trends.

Keshrawani and Srivastava (2025) used a Vector Error Correction Model to look at both short-term and long-term effects of social sector expenditures. They found that long-run impacts were positive for sectors such as education, health, labour and employment, and housing, but negative for social welfare and nutrition. In the short term, however, education, health, and housing show negative effects, whereas labour, employment, social welfare, and nutrition had positive impacts, which explains that the error correction term is adjusted towards the long-run equilibrium.

6. Emerging Issues in Social Sector Spending in India

The review of literature highlights several emerging issues that are increasingly shaping the effectiveness and direction of social sector spending in India:

- **Transition from Welfare to Populism:** According to recent research, social spending is increasingly focused on short-term populist initiatives rather than the development of long-term human capital. This has an impact on public spending's productivity and sustainability.
- **Increasing Revenue Spending Compared to Low Capital Investment:** The predominance of revenue expenditures over capital expenditures is a recurring issue. This reduces long-term developmental outcomes by limiting the development of health, education, and sanitation facilities.
- **The Digital Gap in the Delivery of Social Services:** Disparities in digital access between rural and urban areas, as well as across states, have become a significant issue with the growing use of digital governance (e.g., DBT, digital health missions), impacting fair access to benefits.

- **Issues with Fiscal Sustainability:** Increasing social spending raises issues regarding long-term sustainability and the fiscal imbalance, particularly in developing nations like India.
- **Ignorance of the Linkage Between Environmental and Social Sustainability:** There is still much to learn about the relationship between social spending, environmental sustainability, and adaptation to climate change.

7. Further Road Ahead

The next research that can be carried out is to explore the role of digitalization and AI in improving the efficiency of social sector expenditure, especially in health and education.

- Comparative studies between India and other developing countries can be carried out.
- The study can focus on outcome-based budgeting and impact evaluation to determine the actual performance and outcomes of the public spending
- The long-term sustainability of social sector spending in relation to economic stability can be analysed.

8. Conclusion

The thematic literature review on social sector spending in India indicates a significant rise in public allocation for sectors like health, education, and welfare. However, it highlights that the resulting human development and economic development outcomes are inconsistent. A large share of social spending focuses on revenue rather than capital expenditure, obstructing infrastructure and sustainable human capital development.

The review notes a positive, but uneven, impact of social sector spending on human development indicators, influenced by governance quality, resource utilisation efficiency, institutional capacity, and regional disparities. Notably, interstate differences persist, with some states developing better outcomes from comparable or lower expenditure levels.

Furthermore, the study finds the link between social sector spending and economic development to be intricate and context-specific, with support for both Keynesian and Wagnerian theories, exhibiting generally favourable long-term effects, while short-term impacts differ across sectors.

The overall conclusion is that simply increasing social sector spending is insufficient; it is essential to enhance efficiency, ensure equitable distribution, strengthen governance, and improve spending quality to achieve inclusive and sustainable development in India.

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