

Pragmatic Effect of Public expenditure on the Economy Prioritizing Education Sector in Tamilnadu

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Abstract

Although a number of studies and researches have focused on the topic public expenditure and its impact on the economy but still a strong and clear conclusion is yet awaited for a positive and good impact. Government spends a huge amount on many sectors but the present study has mainly focused on expenditure of the centre and state on Education. The study is purely based on secondary data and replicates the impact of public expenditure on the particular sector from 2015-2016 to 2019-2020.

Key words: Public Expenditure, GSDP, GDP, Education

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Introduction

Education is considered to be the most vital and precious wealth an individual possesses in the long run without any deterioration. Education is the pragmatic application of knowledge for the enhancement of self and society. Education keeps us in pace with the present scenario and future challenges. The classical economist accepted education as a means to increase production. Adam Smith deemed acquisition of skills through education and study. Education is an important factor of economic growth for a country like India. Likewise Government budget policy affects the long-term growth rate through decisions on priority based public spending on different sectors like Education and Health. Education is a key factor for boosting a country's economy and is considered as one of the necessary conditions to achieve better outcomes on social welfare. The social benefits of education provide a powerful set of arguments in favour of public investment to achieve the social optimum (Harsha, 2004). Between the years 2015 to 2020, the annual public expenditure on education was on an average 2 to 3.5 percent of GDP. If education causes GDP to increase to a greater extent than the allocation to this sector should also be enhanced investment in education leads to the formation of human capital, comparable to physical capital and social capital, and that makes a significant

contribution to economic growth (Dickens et al., 2006; Loening, 2004). Government has taken several measures to improve the quality of education like sanctioning more teachers as to reduce the Teacher-Pupil Ratio at the primary and upper primary level. The innovative schemes introduced by this Government have helped to place Tamil Nadu as a leading State in School Education. State Government is fully committed in ensuring quality education to all, especially to the poor. The Government has achieved the target of establishing primary and middle schools in the immediate vicinity of almost all habitations throughout the State. The state government is taking all steps to implement effectively "The Right of Children to Free and Compulsory Education Act", which provides access to private schools to children belonging to disadvantaged and weaker sections of society. Since its inception from 2010, this scheme has so far benefited 4.19 lakh children in Tamilnadu. The Centrally sponsored schemes of SSA and RMSA have been integrated to form the Samagra Shiksha Abhiyan scheme, with effect from 2019-20, for which Rs.2,791.32 crore has been included in the Budget Estimates of 2019-2020.

Review of Literature

An investment in education is very beneficial to the society, both at the micro level as well as macro level and affects the economic growth both directly

and indirectly (Dahlin, 2005).

Kevin (2000) explores the transition mechanism that might link the income inequality and economic growth. He found that public education expenditures are positively associated with future economic growth, although the contemporaneous effect upon growth is negative. Barro et al (2001) examines a panel data of around 100 countries observed from 1965 to 1995 and finds that growth is positively related to the starting level of average years of school attainment of adult males at the secondary and higher levels. According to Chemingui (2005) an increase in government expenditure devoted to the three priority areas i.e. agriculture, education, and health will affect the economy through increase in sectoral or economy-wide total factor productivity (TFP). Kamara et al. (2007) indicate that public expenditure on education is positively correlated with economic growth in African countries. Nah (1997) studied the impact of various types of social expenditures on economic growth by using the 1992 data for 68 countries with the help of rank correlation and regression techniques. The conclusions through ranking reveal that the advanced countries spend relatively greater proportions of their public expenditure on health and social security but the developing countries allocate disproportionately larger amount for educational development. Jandhyala (2006) in his paper "On Allocating 6 Percent of GDP to Education" found that investment in the education of less than targeted 6 percent of GDP is regarded as one of the main reasons for failure in realising our educational goals and targets. He arrives at the conclusion that if there is a political will, reaching the goal of 6 percent of GDP is a not an impossible task.

Anuradha and Tanuka (2008) in their working paper "Public Expenditure on Education in India, Recent Trends and Outcomes" found that the share of public expenditure on education has been less than 4 percent as a proportion of GDP. Public expenditure on education in current prices has been growing at the rate of 13.4 percent per annum for the period 1990-91 to 2003-04. The rate of growth has slowed down in the current decade. Their study indicates that expenditure, when measured at constant prices, shows a much lower growth rate of only 6.5 percent for the same period. The analysis also finds that the central government has been playing an increasingly important role in state education finance.

Sources of Indian Education

The education policy was shaped primarily by the Kothari Commission (1966) and the National Education Policy (1968). The Kothari Commission recommended that Public expenditure on education

should reach the level of 6 percent of GDP by 1986. National education policy 1968 also recommended that as soon as possible Investment in education to be gradually increased to reach a level of six percent of national income. It was resolved in the National educational policy of 1986; to increase the investment in education will be stepped up so that more than six percent of national income is allocated from eighth plan onwards. Saikia committee (1996) stressed on the need for an expenditure of 6 percent of GNP on education with 50 percent of it earmarked for primary / secondary sector. Union Government's education fund overly dependents on the education cess. The Indian government introduced a 2% education cess in 2004 which was initially used to fund the universal midday meal in public schools. In 2007-08, the government introduced a 1% secondary and higher education cess. In 2018-19, the education cess as well as the secondary and higher education cess was revamped into a health and education cess at 4%. In 2018-19, government introduced a new social welfare surcharge of 10% on aggregate import duties. A cess is a dedicated fund for a purpose, and in this case the education cess is expected to cushion the government's education expenditure.

Objectives of the Study

The following are the objectives of the present study:

1. To analyse the trends and volume of educational expenditure by Centre and Tamilnadu government in India.
2. To study the changing Patterns of public expenditure on education.
3. To find the relationship between Public expenditure on education and Dropout.
4. To analyse the National GDP and state GSDP.

Database and Methodology

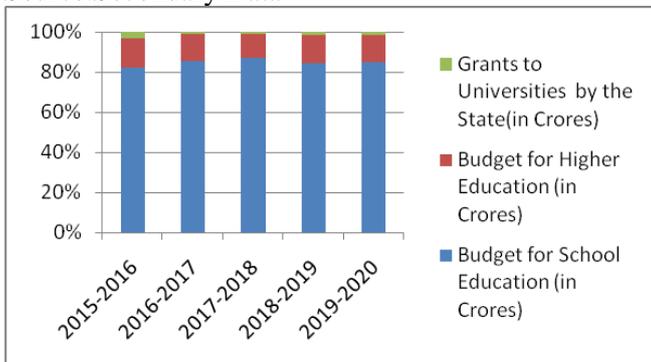
We have collected data on total expenditure on education over the period 2015-16 to 2019-20 and primary based on secondary data. Data related to expenditure on education are taken from budgetary analysis of government of India, compiled by Ministry of Human Resource Development, Govt. of India. In order to analyse the data, we have used Inferential statistics.

Table-1 Allocation in the Budget for Education and GERs

YE AR	BUDGET FOR SCHOOL EDUCAT ION (IN CRORES)	BUDGET FOR HIGHER EDUCAT ION (IN CRORES)	GRANTS TO UNIVERSI TIES BY THE STATE(IN CRORES)	GROSS ENROLM ENT RATIO
201 5-	20,936.5 0	3696.82	868.40	44.30

2016				
2016-2017	24,130.00	3679.00	357.12	44.80
2017-2018	26,932.00	3680.00	320.00	44.70
2018-2019	27,205.88	4620.20	500.65	44.90
2019-2020	28,757.62	4584.21	538.10	49.8

Source: Secondary Data

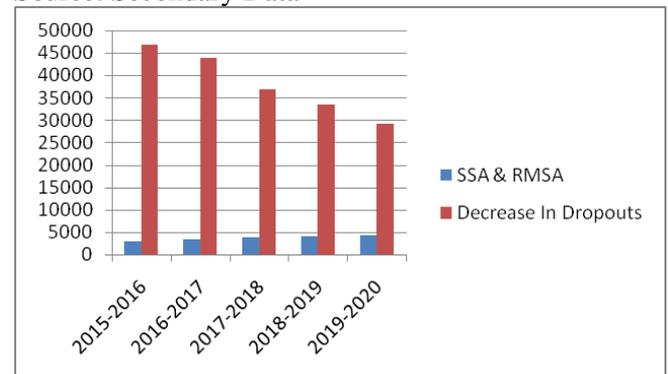


Inference: The table above depicts the state government’s allocation of fund for the education towards school and higher education for the last five years. The budget shows an upward trend in all the years for both. Likewise the Gross enrolment ratio also shows an increasing trend in the study period. An economy shows a positive impact if the education sector is nourished well by the government. Government is taking every step to increase the literacy rate of the economy by providing all amenities to the student society like access to children belonging to disadvantaged groups and weaker sections to private schools under the ‘Right of Children to Free and Compulsory Education Act’ which has benefited lakhs of children so far. To enhance literacy rate in India public expenditure on school education has increased from Rs 20.936 Crores to Rs 28.757 Crores ie(37%) in the last five years from 2015-2020, In the same way for higher education it has increased from Rs 3696 Crores to 4584 Crores ie (24%), But the grants to universities is not steady. Gross Enrolment ratio shows an upward trend in all the years. The main motive of spending a huge amount on education can be achieved only if GER is in growing trend.

Table – 2- Budget Estimates for SSA,RMSA and Dropouts

Year	SARVA SHIKSHA ABHIYAN SSA (IN CRORES)	RASHTRIYA MADHYAMI K SHIKSHA ABHIYAN RMSA (IN CRORES)	SSA & RMSA	DECREASE IN DROPOUTS
2015 - 2016	2090.09	816.19	2906.28	46737
2016 - 2017	2329.15	1139.52	3468.67	43835
2017 - 2018	2656.00	1194.00	3850.00	36930
2018 - 2019	2012.04	2034.10	4046.14	33519
2019 - 2020	2109.08	2092.22	4201.3	29215

Source: Secondary Data



Regression Statistics							
Multiple R	0.960363						
R Square	0.922297						
Adjusted R Square	0.896396						
Standard Error	2325.386						
Observed	5						

ANOVA								
	<i>Df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Sig F</i>			
Regression	1	1.93E+08	1.93E+08	35.60839	0.0018			
Residual	3	1622257	540741					
Total	4	2.09E+08						
	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Intercept	87726.04	8389.912	10.456	0.0008	61.029	114.425	61.029	114.425
SSA & RMSA	-13.4622	2.256	-5.967	0.0004	-20.6417	-6.28258	-20.6417	-6.28258

Inference:

Investment on education is considered as an asset because it acts as an input for the human capital. It raises the level of skill and therefore productivity of worker and thus contributes to economic growth and development of the country. Keeping this in view Government of India grants many fund towards various schemes initiated by the central government to various states, the above table explains the grants towards SSA and RMSA schemes of India. SSA covers the primary level and the RMSA for middle level. The table clearly portrays that vital importance is grants for primary than middle. In all the study period the amount in SSA is more than RMSA and that to in upward trend. The amount granted for SSA and RMSA has been increasing since the commencement of the programme Rs 2906.28 Crore was allotted in the year 2015-16 and by 2019-2020 it reached to 3201.3. Like wise the dropout from school has also been reduces drastically from 46737 to 29215 in the year 2015-16 to 2019-20. The regression table portrays a negative and strong correlation between government scheme of SSA and Dropouts (-0.96). In the same way there exist a significant relationship

between the variables at P- value at 0.009 against Alpha value of 0.05.

Table – 3 India’s Expenditure on Education Sector

YEAR	EXPENDITURE(IN BN) ON EDUCATION SECTOR	SCHOOL ENROLMENT(IN BN)
2015-2016	422.1	2104
2016-2017	723	2295
2017-2018	818.68	2653
2018-2019	850.1	2713
2019-2020	938	2869

Source: Secondary Data

<i>Regression Statistics</i>							
Multiple R	0.9397						
R Square	0.883						
Adjusted R Square	0.844						
Standard Error	124.923						
Observations	5						
ANOVA							
	<i>Df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Sig F</i>		
Regression	1	353372	353371.6	22.6437	0.0018		
Residual	3	46817	15605.7				
Total	4	400189					
	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95%</i>
Intercept	1405.772	242.116	5.806	0.010	635.25	2176	63

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Expenditure (in Bn) on Education Sector	1.494	0.314	4.759	0.0018	0.495	2.493	
Karl Pearson's Correlation (r) = 0.939		Strong Relationship	Alpha = 0.05				
			p = 0.001 < 0.05	Significant Relationship			

Source: Manipulated Data

Inference

The above summary shows a clear manipulation of the relationship between expenditure of the Centre for education and the enrolment of the students. The result depicts a strong positive correlation of .93% between the factors taken for study and also a significant relationship among the variables p - value = 0.001 as against alpha value of 0.05. An apparent conclusion can be drawn that an increase in expenditure towards education will definitely raise the enrolment of the students for education. The expenditure can be in any of the form like good infrastructure, amenities etc.

Table – 4 – GDP, GSDP and RTE Act 2009 Fund Allocation

YE A R	GD P	EDUCATIO N % ON GDP	GSD P	RTE ACT 2009 FUND ALLOCATION(I N CRORES)
2015 - 2016	8%	2.4%	8.7%	99.00
2016 - 2017	8.2 %	2.6%	7.9%	125.70
2017 - 2018	7.0 %	2.7%	8.4%	201.00
2018 - 2019	6.1 %	3.1%	8.1%	200.70
2019 -	4.1 %	3.4%	8.0%	248.76

2020				
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Inference: The Right of Children to Free and Compulsory Education Act, 2009 (Central Act 35 of 2009) has come into effect from 1st April 2010. The Act provides for Free and Compulsory Education to all children including disabled children of the age of 6 to 14 years. Every child of the age of 6 to 14 years shall have a right to free and compulsory admission, attendance and completion of education in a neighbourhood school. The Government of Tamilnadu is this aspect extends its hands by reserving 25% seats in private schools and allocates fund for the same. The above table clearly explains that Stepping towards GDP and GSDP, the GSDP shows a satisfactory view of the economy compared to National economy. GDP percentage in the past five years has declined reflecting a poor and unhealthy situation from 8% of GDP it has come down to 4.18%. The state GSDP is stable in the years gone showing no big sign of development ie from 8.79% to 8%. Government of India spends on an average of 2 to 3.5 % of GDP on education against 6% target fixed by Kothari commission.

Conclusion

Education in every sense is one of the primary factors of development. Every country in the world can achieve sustainable economic development only with substantial investment in human capital. Education provides everyone with the best opportunities of becoming successful in the modern society. In terms of knowledge, qualities, traits, skills, attitudes, and capacities, education enables individuals to become conscious subjects of their growth and active responsible participants in a systematic process of building a new world order. Education enriches people’s understanding of themselves with the world. The State government has been straining every nerve to achieve the goal of Universalization of Education and Education for All for many decades. All these efforts have been bearing fruit in terms of enhanced literacy rate and educational accomplishment. In India after the attainment of Independence public expenditure on education in primary, secondary and higher education has grown enormously. Just by high amount will not give a fruitful result unless the quality of the education is enhanced. To improve the quality policy on education need to be improved. The Good public education is a fundamental right in India, and there is a strong correlation between public investment in education, child development and empowerment. In the 2017-18, the government provided funds to the tune of 818 billion to the education sector, which accounted for nearly 2.7% of the total GDP of the country. India reportedly ranks

third in terms of education score of BRICS nations. In the same way the structure of GSDP (gross state domestic product) in Tamil Nadu has been shifting away from agriculture towards industry and services. Services contribute to 55% of the economic activity in the state, followed by manufacturing at 34% and agriculture at 11%. The Union and State Governments must intensify and strengthen funding for education through various sources like alumni contribution, CSR and undertaking of schools by philanthropist and politicians. Country like India needs more concentration on education for its development and to reduce economic problems like poverty, illiteracy, unemployment and inequality. To achieve this mammoth task, all possible sources of funding will have to be explored to assure a qualitative and equitable access to higher education by prioritizing education sector among other service sector.

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