

# **CHAPTER 1**

## **INTRODUCTION**

## 1.1 Introduction

The spotlight of the world economists, especially those pertaining to the developing nations, has been increasingly shifting towards embarking on a twin policy of accomplishing growth of economy with human development. Economic growth alone, is not sufficient in itself to generate development because the concussion seldom percolates down to the lower strata sections of the society. Education and health are vital factors for economic growth and human development. Poverty reduction, child nutrition, school enrolment and infant mortality are deciding factors of human development. Education is an economically and socially rewarding investment. In many developing countries, education is provided principally by state funding. The spread of education therefore depends on financial resources. The development of a nation is primarily determined by the endowed natural resources and the attribute of the human resources, which depends on the level of knowledge, skills and attitudes of the citizens; these parameters are determined by the status of school education and higher education. For development of knowledge, the act of education is crucial.

The generalisation, that investment in human capital promotes economic growth is major issue since the time of Adam Smith (Kiker, 1968), who emphasised the priority of investing in human skills. Schultz (1961) and Denison (1962) argued that education directly contributes to the growth of national income by enhancing the skills and productive capabilities of the labour force. These works led them to find that a considerable proportion of the rate of growth of output in the United States was due to investment in education. Hence, policy-makers in India, after independence, have placed importance on the provision of basic social services like education, health and nutrition to all sections of society, mainly the poor. Given the large base of poor in India, this policy induced substantial increase in social expenditure.

### **1.1.1 Role of Education in Economic Development**

*'Education is the manifestation of the perfection already in man'* – Swami Vivekananda. He conceived the aspect of education as a facilitating one, which helps to build the latent talents, already present in the individual. Quality education and knowledge are considered as an intrinsic part of human development.

The relationship between human beings and education is very close. Man, has achieved success in almost every field and made his life comfortable, but this development or achievement has been gained only because of his knowledge and skills, which is accomplished through education. Therefore, education is regarded as one of the most powerful instruments for emancipation and empowerment of human beings (Misra 2001).

Education is the single most important means to attain sustainable development. Any attempt to strengthen economies, scale down poverty and enhance the quality of life of people, can yield results with increased attribution to education. Learning equips people with the skills they need to participate absolutely in the economy and society.

It is obvious that good schooling and advanced knowledge will always yield positive returns. Therefore, educational programs must acquire considerable priority in any under developed country like India where supremacy of non-economic factors play a role.

Empirical evidences claim that education has positive influence on the income of the individuals. While there is widespread interest in education as a means of furthering economic development, there has been remarkable findings about various channels through which education promotes economic development. Education may influence economic development through changing the attributes relevant to economic development or it may influence economic development in its capacity as a relevant economic input. In the former case, education may change the attitude to work, consumption preferences, savings propensities, innovativeness attitude towards family and various social attitudes relevant from the economic

point of view. In the latter case, that is as an input, education is considered to be a process of skill formation and in this aspect, it is treated at par with the process of capital formation. It is obvious from these studies that the correlation between educational development and economic development is very well established.

### **1.1.2 Arbitration of State in Education**

The role of state in education has been identified from the earliest times. There had always been state patronage for education in ancient India. State aid was given to the educational institutions. It has now been recognised that every child up to a certain age has a right to receive education and it is the duty of the state to make adequate provision for it. Even Adam Smith, the apostle of national liberty and laissez-faire, was in favour of state-controlled elementary education. John Stuart Mill, belonging to the classical tradition, also advocated that the state should provide for both elementary and higher education and the elementary education should be made compulsory. Because the functioning of market mechanism helps to provide goods and services to satisfy the demands of the consumers. But all the needs of the consumers cannot be satisfied through the market. The inherent and inbuilt limitations of market mechanism as a guiding principle for economic decision making have called for government's intervention in various fields even in the advanced market economies.

Even in the history of economic thought state involvement in education in one form or the other has been favoured for social and economic improvement (Vaizey, 1962). After reviewing earlier views on education, John Vaizey concluded that “there is a long and honourable tradition from Adam Smith to Alfred Marshall which assigns to publicly supported education a vital role not only in promoting social peace and harmony, and self-improvement, but in the process of Wealth creation itself’.

The mobilisation of human resources and its development is the process by which knowledge, skills, and capacities of all the people are increased. The expenditure incurred on the development of human resources is seen as a form of investment in human beings and is known in the field of economics of education as investment in human capital" (Schultz, 1961).

The state intervention in the development of education takes many forms and varies widely across countries. In communist countries, the state owns all the educational institutions and possesses complete control over the supply of educational services. In some countries state intervention is limited to selected areas of education (such as the conduct of examination) and all other aspects are in the hands of private sector. But the most common form of intervention in the development of education is through the public financing of educational system.

### **1.1.3 Significance of Public Expenditure on Education**

Public expenditure on education for economic development in general and for the provision of education to the society education system in particular, has come to assume a crucial role in modern times.

There is a general apprehension about the public educational expenditure as a tool of public policy. But the importance assigned to education in the overall development, has posed the problem such as: How much a nation should spend on education? What are the methods of financing education? Who has to share the burden of costs of education? What is the result of raising resources for education from different sources -taxes, fees etc.? How the resources should be distributed at different levels, etc.? Because the government has to meet the competing ends with limited resources. These are all issues of crucial importance and the understanding of which will help to serve the policy ends better. As such, instruments of educational policy are limited in number, and financing is one among the few available for influencing the policy objectives (Noah and Sherman, 1979). The public financing of education

can influence the quantity and quality of education and also its distribution at different levels. But it depends on how effectively the government makes use of its and ultimately how it affects the development objectives themselves.

Education being a merit good, is financed by the government as well as by the receivers of education in most of the countries. The degree of state involvement in financing education varies among the countries depending on their political, economic and social systems. In general, there are two ways of financing education: direct intervention by the state through its institutions and through grants to educational institutions and loans and other financial assistance to the receivers of education (Prest, 1965).

Education is one of the important services provided with the help of the government and it has grown rapidly both in terms of public expenditure and the number of persons educated. The education expenditure has grown both in absolute terms and in relation to the GNP in both the developed and the developing countries with different political and economic systems.

#### **1.1.4 Distributional Aspect of Public Expenditure on Education**

Most of the Public finance operations, including expenditure on education are justified mainly on the grounds of either 'efficiency' or 'equity' or both. The conventional allocative efficiency argument for government support of education is that significant externalities are produced as the individuals seek to enhance their educational levels. It means that the market system supplied education to the extent that it satisfies private demand and produces less than optimal quantity of education and consequently society as a whole suffers. Further, it is assured that the measurement of these benefits and identification of the beneficiaries are very difficult, no particular group can be asked to pay for these benefits. Hence the only way out is to finance them collectively so that private and social rates of return could become equal.

The most often stated equity justification is that since many families cannot stand to pay the costs of their children's education, the government should provide financial assistance so as to guarantee equal participation from all sections of society. Without subsidies for education, it is argued, access to education may spread unequally among the people. The strength of this argument assumes significance when it is recognised that "... education influences the future level of earnings, so that to distribute it in accordance with the purchasing power is to perpetuate inequalities of income" (Woodhall,1975). Hence, the most crucial and obvious way of equalising educational opportunity is, to remove financial barriers that may prevent children of poor families from entering and completing any course of education.

The goal of equalising opportunities in economic and social life through education has gained importance at a time when the contribution of education to economic growth has become a subject of much controversy. In recent years, the 'equity' criterion has dominated over the 'efficiency' criterion in the educational planning of developing countries (Smith, J.A, 1974). Hence, distributional considerations based on equity have come to play a dominant role in the financing and supply of education services in the developing countries like India.

In recent years' policy-makers and researchers have focussed on the crucial issue of financing of education. Accordingly, various arguments have been put forwarded in favour of and against the public intervention in general and expenditure on education in particular. Those in favour of public expenditure argue that if a service like education is provided by the government at low or no cost, its consumption is likely to spread more evenly among different sections and regions of a country than if it is given to the market mechanism. It is believed that public financing permits education to act as an equalising agency by providing a parallel access to all and consequently allowing all individuals to rise up the social ladder irrespective of their socio-economic background.

## **1.2 Development of Education Sector in India**

Development of Education sector in India has achieved new level vitally since independence of the nation. India is a developing country and it has been expanding in every field. Development of educational field in India brought about a transformation and the approach of education got modified. Literacy rate has raised from around 3% in 1880 to 65% in 2001. As per the 2011 Census, the Literacy Rate is recorded to be around 74%. All levels of education in India, from primary to higher, portray a challenge. India now have range of prestigious educational institutions such as AIIMS, IITs, NITs, IISc, and IIMs. The higher education system of India is positioned third largest in the world, after China and the United States. Development of education in India regards that no cost and mandatory education must be provided to all children up to the age of 14. Moreover, the 86th Amendment of the Indian constitution makes education a fundamental right for all children between 6-14 years.

## **1.3 Development of Education Sector in Odisha**

Education is not only one of the most essential factors of economic growth through manpower development but also the means to comprehensive development of societies. It helps to enhance skills and technology and thus has a vital impact on production and productivity.

Indian States are under constitutional obligation to dispense no cost and mandatory education to all children up to the age of 14. The Government of Odisha has set down a number of goals for the education sector like Universalisation of Elementary Education (UEE) in the State by 2010, universal literacy, development of secondary and higher secondary education, skill development through vocational education in higher secondary schools & modernisation of technical education. There has been an enduring advancement in the literacy rates of the State since last decades, which is a result of growth of educational infrastructure, both qualitative and quantitative.



The literacy rate in Odisha during 1951 was 15.8% against the national average of 18.3%, which increased to 63.08% in 2001 against the all India average of 64.80%, and in 2011 it was 73.45% against the national average of 74.04%. While the male literacy rate of 63.1% in the State in 1991 increased to 75.35% in 2001 and 82.40% in 2011, the female literacy rate increased from 34.7% to 50.51% and then to 64.36% over the same period.

In 2011, among the districts, Khurda has the highest literacy of 87.51%, whereas Nabrangpur has the lowest with 48.20% followed by Malkangiri(49.49%), Koraput(49.87%), Rayagada(50.88%), Gajapati(54.29%), and Nuapada(58.20%). The literacy rate among the scheduled castes and scheduled tribes in the state is lower than the overall literacy rate of the state. The literacy rate among scheduled caste is 69% and among scheduled tribes is 52.24% in the state in 2011.

The Government of Odisha is pledged to the Universalisation of Elementary Education in the State with the ambition of fulfilling the constitutional obligation with the assistance of Central Government. Keeping in view the need for Universalisation of Elementary Education, there has been augmentation at Primary and Upper Primary School stage of education, in the Government sector, especially in rural areas as well as backward areas.

In Odisha, there are 35928 Primary and 20427 Upper Primary schools to cater education at elementary level. More 491 Primary and 490 Upper Primary schools opened under SSA to cater schooling in unserved areas. There are 6193 Govt. and aided Secondary Schools, 849 Recognized High Schools and 151 permitted High Schools in the Odisha. The tribal and Rural Welfare department has opened special type of schools for the benefit of the tribal children in the tribal areas. But after so much of effort the return from education of students in the rural areas are not found effective, which may be a possible factor responsible for the under development and slow progress of the state.

#### **1.4 Rationale of the Study**

The development of any country depends upon its economic growth which is determined by upon human capital formation. There said to be a dynamic and inevitable linkage between economic growth and human development. And education is the most vital factor that helps in human capital formation. Therefore, keeping in mind the essence of education as one of the foundational level of development this study has been designed to analyse the construction of this foundational level through government expenditure.

The state Odisha is lagging behind in most of the human development indicators while compared with India. And progress in all these indicators would be possible if the basic necessity of health and education is addressed properly. Odisha is having huge rural population of 83.3 % and ST/SC population alone constitute near about 40 % of the population. The literacy rate of tribal population according to 2011 census is only 53.1% which is very low.

In spite of such increment in Gross state domestic product and expenditure in education since last decade, many infrastructural facilities like percentage of school with electricity, computer facilities, playground facilities etc are showing poor performance while compared with India. And it is also believed that government aided schools are losing their enrolments to the private aided schools as the data from previous decade shows enrolment in government school is experiencing a decreasing growth rate while the private schools are experiencing an increasing growth rate.

Public expenditure on education in Odisha is experiencing a highly fluctuating rate and declining trend. The notion behind choosing this study is the backwardness of Odisha and its slow progress which is somewhere being caused by the negligence in education sector. With solution to problem like; how effectively expenditure on education is affecting the economy of Odisha and how expenditure on education can be raised to improve infrastructure related to

education in Odisha, this study aims at providing an optimal framework which will not only enhance the educational development but will also enrich the economy in future.

The study has been taken up to spotlight the problems and prospects of efficient funding for education in Odisha. The study would help to examine the trends in growth of elementary education in an exclusive manner, as it forms the foundation of our nation's future. This study would enable planners, administrators, academicians, school managements, parents and entrepreneurial experts to get an insight and know about the various issues and the scope for improvement. It also enables us to get a feedback from students and parents about the present education scenario. The management authorities of schools have also contributed their findings and ideas which are very useful in the present study. More over this study will enable people and government to understand the importance of expenses on education which has a long-term association with the economy.

### **1.5 Objectives of the Study**

- 1) To examine the trend of public expenditure at elementary level of education in Odisha.
- 2) To examine infrastructure facilities related to education available in Odisha.
- 3) To assess the relationship between economic growth and education expenditure in Odisha

### **1.6 Terminology**

#### **1.6.1 Educational Expenditure**

Public spending on education includes direct expenditure on educational institutions as well as educational-related public subsidies given to households and administered by educational institutions. The indicator is shown as a share of GDP and of total public spending. Education

expenditure covers expenditure on universities, schools and other private and public institutions delivering educational services.

### **1.6.2 Gross State Domestic Product (GSDP)**

Gross state domestic product is the monetary value of all final goods and services produced within a country's territory in a specific time period. GSDP includes all public and private consumption, government outlays, investments, private inventories, paid-in construction costs. Put simply, GSDP is a wide measurement of a state's overall economic activity.

### **1.6.3 Gross District Domestic Product (GDDP)**

Gross District Domestic Product is defined as a measure, in monetary terms, of the volume of all goods and services produced within the territory of the District during a specific period of time, accounted without duplication.

### **1.6.4 Educational Infrastructure**

The conditions of the schools directly impact the performance of the students. The fact is that a school with good infrastructure, with renewed spaces, makes it possible for children and youths that live in remote areas to study and, in addition, tends to improve the interest and attentiveness of students and teachers in learning. In the category of educational infrastructure, we can simply include some essential infrastructure like; no. of school, no. of class rooms, drinking water facilities, toilet facilities, electricity, computer facility, playground, boundary etc.