

On Allocating 6 Per Cent of GDP to Education

If there is political will, the goal of allocating resources equivalent to 6 per cent of the gross domestic product for education is realisable. Allocations to education can be increased by reallocating resources from other sectors or by raising more resources for the common pool of government funds or by both. However, a generous approach needs to be adopted in allocation to and reallocation of resources in favour of education.

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How much should India invest in education as a proportion of her national income? It is well known that our education system is severely starved of funds, and that it does require huge sums, for quantitative expansion, improvement in quality, and equity, strengthening diversity and other vital aspects of educational development. Many estimates have been made on the resource requirements of the system. Long ago in 1966, the education commission (1964-66) (chaired by D S Kothari) had recommended that we should allocate 6 per cent of national income to education. But the goal remained unfulfilled. The Common Minimum Programme (CMP) of the UPA government “pledges to raise public spending on education to at least 6 per cent of the GDP” and that “this will be done in a phased manner”. Though there is nothing new in it, this is an important reiteration of the government. A detailed plan is necessary on the needed annual increases in allocation of resources to reach this goal, as observed by the central advisory board of education’s (CABE) Committee on Financing Higher and Technical Education (2005).¹

Background

The education commission of 1964-66 made a detailed analysis of the trends since independence, estimated requirements of the educational system in India up to 1985-86, and recommended that “we should accord the highest priority to education and allocate the largest proportion

of GNP possible to it” (p 873). It suggested, based on certain not altogether unrealistic assumptions regarding economic growth, population growth, growth in enrolment and expenditure per student, that this proportion should be 6 per cent. The commission also compared this estimate with the corresponding figures of other countries, available in the UNESCO statistics: “Japan and the US and the USSR are spending considerably more than 6 per cent of GNP on education” (p 860); they spent no more than a small fraction of their GNP on education at the beginning of the century. The commission also felt that these countries might be spending about 10 per cent of GNP by 1986, and perhaps more than 10 per cent, if comprehensive disarmament takes place. Hence, the need for India to increase its public expenditure at least to the level of 6 per cent of GNP by 1985-86.

Thus the 6 per cent target suggested by the education commission is based on the following considerations (p 873): The requirements of the system for the next 20 years; the level of spending by the economically advanced countries like Japan, the US and the USSR as a proportion of their GNP on education and the likely trends in future; and the simple normative principle: Normally expenditure on education should grow at double the rate of economic growth in the early stages of educational development. But the education commission set a modest target of 10 per cent growth in educational expenditure, compared to an expected 6 per cent rate of economic growth.

Thus the commission felt that the target of 6 per cent of GNP was not at all an

“ambitious one”. Methodological, including conceptual and definitional aspects of educational expenditure and the details of the analysis and the targets of the commission are unambiguously clear. The rationale provided by the commission for its recommendation was also sound and it also gave enough time to the government for reaching the goal, providing a 20-year period.

Of the several recommendations made by the Kothari commission, 6 per cent of the GDP was accepted by the government of India. It resolved in the National Policy on Education 1968 “to increase the investment in education so as to reach a level of expenditure of 6 per cent of the national income as early as possible” (p 9).

But what has been the performance over the years?

Performance

At the inception of planning (1951-52) India was spending 0.7 per cent of GNP, and by 2004-05 (budget estimates) it increased to 3.5 per cent. Even though the growth is not smooth, this is indeed a remarkable increase. But the goal was not achieved by the date suggested by the Kothari commission, nor even 20 years later, as shown in Table 1.

After crossing the 4 per cent mark in 1989-90, just about the time the new economic reform policies were introduced, the proportion then slid down below 4 per cent – to 3.9 per cent in 1991-92 and to 3.6 per cent by 1997-98. There was a

Table 1: Share of Government Expenditure on Education in GNP
(Per cent)

1951-52	0.67
1965-66	1.82
1985-86	3.71
1989-90	4.21
1999-2000	4.30
2000-01	4.40
2001-02	3.90
2002-03	3.83
2003-04RE	3.81
2004-05BE	3.54

Notes: Expenditure on education includes central and state government’s budget expenditure under revenue, capital and loan accounts on education incurred by education and other departments.

RE: Revised estimate; BE: Budget estimate.
Source: Based on *Budgetary Resources for Education 1951-52 to 1993-94, Analysis of Budget Expenditure on Education and Economic Survey 2004-05*.

modest increase later and at the beginning of the present century (2000-01), it was above 4 per cent; but even that level could not be sustained in the following years. The current ratio is the lowest since 1985-86, i.e., after the National Policy on Education 1986 was formulated.

It also needs to be underlined that the current proportion is also less than (a) the requirements of the education system to provide reasonable levels of quality education to all the students enrolled; (b) the requirements of the system to provide free and compulsory universal elementary education of good quality for eight years for every child of the age-group 6-14, as a fundamental right, as proclaimed in the 86th Amendment of the Constitution of India in 2002 and the consequent growth in secondary and higher education; and (c) the proportion of GNP invested in education in many other developing, leave alone developed countries of the world, including Africa. According to the latest statistics, India ranks 80th among 130 countries of the world on which such data are available, in the proportion of GDP spent on education in 2000-02 [HDR 2005].

As the goal remained unaccomplished, the National Policy on Education 1986 (revised in 1992) also resolved, "It will be ensured that from the Eighth Five-Year Plan onwards it (the outlay on education) will uniformly exceed 6 per cent of the national income" (p 29). The non-accomplishment of the goal led the government to repeatedly reiterate the commitment in subsequent years in every five-year plan, in every policy statement, party manifestos and other agenda, and even in the Independence Day speeches of the prime ministers from the ramparts of the Red Fort.

Underinvestment in education is regarded as one of the most important reasons for our failure in realising our educational goals and targets, such as those relating to (i) universal adult literacy, (ii) universal elementary education, including universal enrolment, universal completion of eight years of schooling and universal achievement of minimum levels of learning, (iii) vocationalisation of secondary education, (iv) maintenance of, if not improvement in quality and standards in higher education, (v) reduction in regional disparities, and (vi) equity by gender, and other socio-economic groups of population. Even nearly six decades after independence, unacceptably large numbers of people are illiterate; large numbers of children are yet to see a school; and socio-economic, gender and regional inequalities are significant. The failure to reach the

educational goals also resulted in non-accomplishment with respect to socio-economic, cultural and political transformation of society, leaving the country to continue to be labelled as an "underdeveloped" or a "developing" nation. International forecasts² still describe the nation as one that will not reach the education for all (EFA) or millennium development goals in the near future, and group India along with countries in sub-Saharan Africa.

Unnecessary Controversies

The failure to allocate 6 per cent of GNP to education is not as much surprising as the attempts made to subvert the definition and scope of the terms and to misinterpret the letter and spirit of the recommendation of the Kothari commission as well as the resolution of the National Policy on Education 1968. Efforts were made to misinterpret the facts, quantitatively under-define the goals and state that the 6 per cent of national income should consist of not just government expenditure, but all private expenditure as well. Some argued that the recommendations had become redundant and do not deserve any more attention. Such attempts³ deliberately ignore the fact that the Kothari commission had referred mainly to public expenditure. The UNESCO and other international statistics that the Kothari commission used as a base for comparison also refer to government expenditure only. More importantly these attempts also diverted public attention from the very need to substantially increase public allocations to education to realise the educational goals and quantitative targets periodically set and revised by the government.

Now, the government seems to be somewhat clear about the goal and shows some seriousness about achieving the 6 per cent goal. The goal earlier targeted for the end of the Tenth Five-Year Plan is, according to the CMP, to "be done in a phased manner"; and no clear date is fixed. But the interesting point is that the CMP makes it clear that the total spending on education will be "public spending", meaning that it will be the budget expenditure of the union and state governments, and not the public plus private outlays.

Gloomy Future

What are the chances of achieving the 6 per cent of the GNP goal in the near future? What do the forecasts look like?

As shown earlier in Table 1, the past trends have not been encouraging. In 40

years, after the education commission made the recommendation, the proportion of GNP on education could not even be doubled: it increased from 1.8 per cent in 1965-66 to 3.5 per cent in 2004-05. Projections for the future are also not encouraging; the goal may continue to be elusive. It is feared that unless significant efforts are made, the target will be difficult to realise in the near future, as the trends in Table 2 indicate.

If the trends in the rates of growth in national income and expenditure on education in the past decade, 1995-96 to 2004-05, continue for a decade and more, by the end of the next decade, i.e., by 2014-15, the share of education expenditure in GNP will increase at best to 3.65 per cent (Scenario A), which is only marginally better than the present position. On the other hand, if GNP increases at an annual rate of growth of 7 per cent, as expected by the government, but if the expenditure on education increases only at a rate of growth experienced during the last decade, the relative share of education will be only 3.3 per cent by 2014-15 (Scenario B), falling below the current level, which itself marks the lowest level ever since the National Policy on Education 1986 was formulated. The corresponding ratios in 2014-15 are marginally smaller, if GDP is used as the denominator, instead of GNP. It is generally feared that either of the above two scenarios is most likely, making the 6 per cent goal far from realised, unless special efforts are immediately initiated and significant increases are made in the allocation of resources to education.

Table 2: Likely Trends in the Share of Education Expenditure in GNP/GDP

	Per Cent of GNP		Per Cent of GDP	
	Scenario A	Scenario B	Scenario A	Scenario B
<i>Actual</i>				
2004-05 BE	3.54	3.54	3.52	3.52
<i>Projections</i>				
2005-06	3.55	3.52	3.54	3.50
2006-07	3.57	3.49	3.55	3.47
2007-08	3.58	3.47	3.56	3.44
2008-09	3.59	3.44	3.58	3.42
2009-10	3.60	3.42	3.59	3.39
2010-11	3.61	3.39	3.60	3.37
2011-12	3.62	3.37	3.62	3.34
2012-13	3.63	3.34	3.63	3.32
2013-14	3.64	3.32	3.64	3.29
2014-15	3.65	3.29	3.65	3.27

Growth rates assumed:

Scenario A: The trends of the last decade (1995-96 - 2004-05) continue, i.e., the realised rates of growth to continue. GNP: 5.89 per cent; GDP: 5.81 per cent; expenditure on education: 6.22 per cent.

Scenario B: GNP: 7 per cent; expenditure on education: 6.22 per cent.

Does the 6 Per Cent Norm Have Any Sanctity?

It may also be noted that the 6 per cent norm, though important, does not have much sanctity on its own. It assumes importance mainly as the goal remained unaccomplished so far, it is otherwise feared to be unaccomplished in the near future, and allocation of 6 per cent of GDP now means a substantial increase – nearly doubling the allocation to the education sector from the current levels, as shown later below. The 6 per cent norm also does not have much sanctity, as the estimate was made long ago by the education commission as the requirement of the education system, based on somewhat austere estimates of growth in enrolment, per student expenditure and other parameters. The austere estimates and assumptions may not be much relevant today. In fact, there is a need to revisit the policy relating to resource commitment to education. But any fresh exercises of requirement of resources for education sector may mean a figure much above 6 per cent of GDP, as some exercises mentioned later indicate. To provide education for all as a fundamental right and as a means of development, to provide for further growth of high quality manpower commensurate with India's growing position in the world economy and the urgent need to keep pace with global developments in all spheres of science and technology, we may, indeed, require much more than 6 per cent. Therefore, the 6 per cent norm can be seen as our immediate target, and it does not and should not be treated as an upper limit.

The system requires a total allocation for public spending on education and research to go well above 6 per cent of the GDP. For example, Seth (1985) had estimated that the corresponding proportion for provision of "appropriate" education would be 10 per cent. Tilak (1994) estimated that to reach even modest goals in education development, allowing normal growth in enrolment in all levels of education, we would require about 8 per cent of GNP by 2000 AD. Recent estimates for universal elementary education, made in the context of CAGE meetings [GoI 2005], suggest that the allocation to elementary education needs to be nearly doubled as a proportion of national income. Rapid growth in elementary education will have effects on the demand for secondary education, which will, in turn enhance demand for higher education. Efforts are already being contemplated for initiation for universalisation of secondary education,

which would also require stepping up of the resources considerably. An enrolment ratio of about 20 per cent is also being tentatively aimed at in case of higher education for the near future. In short, any exercise that considers these aspects may produce an estimate of resource requirements much above 8-10 per cent of GDP. Further, many of the estimates have not made any provision for increases in the quality and standards of education to reach international levels of excellence, or for spending per student amounts anywhere equivalent to the levels the developed countries spend. In one such exercise, Bhanoji Rao (1992) had estimated that India might require as much as 25 per cent of GNP, to spend amounts equivalent to what relatively advanced countries like Singapore spend per student on education.⁴

Considering all this, as has been stated above, it is important to note that 6 per cent of national income is the minimum level that is required now for public expenditure in the education sector in India, and that the actual requirements would have to be eventually seen as substantially larger in the future.

Alternative Scenarios

Realisation of the goal of 6 per cent of GDP for education requires a substantial rise in the allocations to education. Three alternative scenarios have been worked out here on the magnitude of allocation of resources required to reach the norm under alternative assumptions relating to the target year and the path of growth of expenditure on education. During the last decade (1995-96 to 2004-05), GDP has increased at a real rate of growth of 5.81

per cent per annum. But according to the current forecasts of the government, it is likely to increase in future at a rate of growth of 7 per cent, if not higher. In fact, some argue that it will be 8 per cent or higher. But a 7 per cent rate of growth of GDP is assumed here for the next decade, and three scenarios are worked out and the details are given in Table 3.

It may be noted that in the estimates presented in Table 3: (a) expenditure on education includes expenditure to be allocated by the departments of education and other departments – centre and states on education; (b) expenditure on education includes revenue as well as capital expenditure. No distinction between the two is made here, as it is increasingly argued that such a distinction is not useful in our budgetary framework,⁵ at least in case of education sector, as even expenditure on capital items like construction of buildings is incurred out of revenue expenditure; (c) expenditure requirements are estimated in 2004-05 prices (reestimated based upon 1993-94 GDP series); (d) the available data on expenditure on education for 2003-04 and 2004-05 are respectively revised and budget estimates and are not actual expenditures; (e) similarly, the data on GDP relating to 2002-03, 2003-04 and 2004-05 used here are provisional, quick and advanced estimates respectively; and (f) while it may be desirable to prepare a long-term perspective plan for a 20-year period or so, as education is a long-term investment with a long gestation period, estimates are made here for a 10-year period only.

Scenario A: According to Scenario A, the government will allocate 6 per cent of GDP to education from 2005-06 onwards, immediately making necessary upward

Table 3: Required Allocations to Education to Reach the Goal of 6 Per Cent of GDP
(Rs in crore in 2004-05 prices)

	Scenario A		Scenario B		Scenario C	
	Rs Crore	Per Cent of GDP	Rs Crore	Per Cent of GDP	Rs Crore	Per Cent of GDP
<i>Actual</i>						
2004-05 BE	99937	3.52	99937	3.52	99937	3.52
<i>Projections</i>						
2005-06	182206	6.00	118960	3.92	118960	3.92
2006-07	194960	6.00	141604	4.36	141604	4.36
2007-08	208608	6.00	168558	4.85	168558	4.85
2008-09	223210	6.00	200643	5.39	200643	5.39
2009-10	238835	6.00	238835	6.00	238835	6.00
2010-11	255553	6.00	255553	6.00	284297	6.67
2011-12	273442	6.00	273442	6.00	338412	7.43
2012-13	292583	6.00	292583	6.00	402829	8.26
2013-14	313064	6.00	313064	6.00	479506	9.19
2014-15	334978	6.00	334978	6.00	570780	10.22
<i>Required annual rate of growth (per cent)</i>						
2004-05/14-5		9.62		12.86		19.03
2004-05/9-10				19.03		
2009-10/14-5				7.00		

Note: See the text for the assumptions of the three scenarios.

revisions in the current annual plan/budget. It will continue to allocate 6 per cent uniformly until 2014-15. In other words, a sudden "big push" in public funding of education is assumed, which will necessitate preparations on war footing for drawing up of sound plans, formulation of effective schemes, setting up of mechanisms for their efficient execution, and thereby efficient utilisation of increased allocation of resources. Probably our education system requires such a "shock treatment".

Scenario B: A sudden increase in, actually nearly doubling of, the allocations to education in one year may not be desirable, even if feasible, as questions relating to the absorptive capacity of the system arise. Hence this is avoided in Scenarios B and C. In Scenario B, the government raises its allocation to education starting from the present financial year 2005-06, in such a way that the 6 per cent of GDP goal is reached by 2009-10 and then the government will continue to allocate 6 per cent of GDP later, at least until 2014-15. In other words, the goal is set for reaching by the middle of the Eleventh Five-Year Plan, and through out the Eleventh and even the Twelfth Five-Year Plan periods, the share of expenditure on education will be uniformly 6 per cent. In contrast to Scenario A, Scenario B does not involve a big push, it gives time to the government to gradually plan to reach the goal and maintain that level for a decade or so thereafter. But the efforts in the form of raising the allocations will have to be initiated immediately.

Scenario C: Like in Scenario B the government will raise its allocation to education under Scenario C gradually in such a way that by 2009-10, it will be 6 per cent of GDP. But unlike in Scenario B, in the subsequent period, the same tempo, i.e., the rate of growth in expenditure on education planned for the period until 2009-10 will be continued in the following period. This will make the share of education in GDP to increase steadily (beyond 6 per cent) from 2010-11 onwards.

It is clear that all the three scenarios presented here imply a high growth in expenditure on education. All suggest that it requires nearly doubling of the resources to reach 6 per cent of GDP, from the present level. Scenario A expects an annual rate of growth of 9.6 per cent in expenditure on education in real prices, and Scenario C 19 per cent, while Scenario B requires an overall rate of growth of 12.9 per cent – 19 per cent in the first five years, and 7 per cent in the later five years.

If the government wishes to reach the goal of 6 per cent by the end of the Tenth

Five-Year Plan, i.e., by 2006-07, or by the beginning of the Eleventh Plan, i.e., by 2007-08, it means a further higher raise in the allocation of resources in the next few years than presented above.

Scenario C should not be seen as an ambitious one. After all, the education commission felt that expenditure on education should grow at a rate of growth double the rate of economic growth. After all, the GDP is set to grow at 7-8 per cent per annum, and using the thumb rule, one should expect a 16 per cent rate of growth in expenditure on education. The expected rate of growth in Scenario C is a little more than this. Hence, Scenario C may seem to be the most desirable approach, though it seems as if the goal of reaching 6 per cent of GDP is postponed. In fact, the goal is not postponed, as Scenario C assumes that efforts will be made right from this year towards reaching progressively the 6 per cent goal by 2009-10. It further assumes that the rate of growth in expenditure on education planned for the period until 2009-10 will continue in the later period also, thus allowing the proportion of GDP to be spent on education to grow above 6 per cent. By 2014-15, this might cross 10 per

cent. If the trends continue, this proportion will further rise. If GDP grows faster than anticipated (7 per cent), and if the needs of the education system are reasonably fulfilled, this proportion need not continue to grow at the same rate for a long period. In fact, the proportion of GDP that has to be allocated to education can get stabilised around 8-10 per cent. It all, however, depends upon the performance of the education system and of the economy.

Intra-Sectoral Allocation of Resources

All sectors of education are closely linked and all, including higher education, produce externalities, justifying public funding. Public funding has to see that allocation of resources to various levels of education meets the needs of each level of education, promoting access, equity and quality in education. In the recent years, it was promised that about half the allocation to education would be made available for elementary education, which means that the remaining half would be for post-elementary education. The CAGE committee on financing higher and technical

Table 4: Intra-Sectoral Allocation
(Rs crore in 2004-05 prices)

	Elementary	Secondary	Higher		
			Total	General	Technical
<i>Actual</i>					
2004-05 BE*	40587	24990	10383	9562	820
<i>Projections</i>					
<i>Scenario A</i>					
2005-06	91103	45552	45552	30064	15488
2006-07	97480	48740	48740	32168	16572
2007-08	104304	52152	52152	34420	17732
2008-09	111605	55803	55803	36830	18973
2009-10	119417	59709	59709	39408	20301
2010-11	127777	63888	63888	42166	21722
2011-12	136721	68361	68361	45118	23243
2012-13	146292	73146	73146	48276	24870
2013-14	156532	78266	78266	51656	26610
2014-15	167489	83745	83745	55271	28473
<i>Scenario B</i>					
2005-06	59480	29740	29740	19628	10112
2006-07	70802	35401	35401	23365	12036
2007-08	84279	42140	42140	27812	14327
2008-09	100321	50161	50161	33106	17055
2009-10	119417	59709	59709	39408	20301
2010-11	127777	63888	63888	42166	21722
2011-12	136721	68361	68361	45118	23243
2012-13	146292	73146	73146	48276	24870
2013-14	156532	78266	78266	51656	26610
2014-15	167489	83745	83745	55271	28473
<i>Scenario C</i>					
2005-06	59480	29740	29740	19628	10112
2006-07	70802	35401	35401	23365	12036
2007-08	84279	42140	42140	27812	14327
2008-09	100321	50161	50161	33106	17055
2009-10	119417	59709	59709	39408	20301
2010-11	142148	71074	71074	46909	24165
2011-12	169206	84603	84603	55838	28765
2012-13	201414	100707	100707	66467	34240
2013-14	239753	119877	119877	79119	40758
2014-15	285390	142695	142695	94179	48516

Note: * Revenue expenditure only.

education suggested that of the agreed 6 per cent of GDP to education, 3 per cent be allocated to elementary education, 1.5 per cent to secondary education, 1 per cent to higher general education and 0.5 per cent to higher technical education. These mark significant improvement over the current situation. In 2004-05, elementary education received 1.43 per cent of GDP, secondary education 0.88 per cent, higher general education 0.34 per cent and technical education 0.03 per cent. Following the recommendations of the CAGE committee, which can be used as a thumb rule for the time being, the following can be worked out as a tentative indicative intra-sectoral allocation of resources within education (Table 4). The indicative pattern given in the Table 4 does not include quite a few other expenditure heads like adult education, physical education, language and development, etc. The present levels of allocations to these categories are very small and they can be easily adjusted in the allocations recommended.

Under the three scenarios, allocations to every level of education are expected to be hiked at a high rate. Under Scenario C, which has been argued to be the most desirable one, and also under Scenario B, by 2009-10, i.e., when 6 per cent GDP is allocated to education, the allocation to elementary education will be 2.5 times the allocation for 2004-05 so too of secondary education and for higher education nearly five times the current allocation. The increase in higher education seems to be particularly high, as the allocation to higher education in the base year (of our comparison), 2004-05 is very low. It is well known that allocations to higher education suffered severely both in absolute amounts and in relative proportions during the 1990s and later [Tilak 2002], creating a huge backlog in investments reflected in the form of thousands of vacant teaching positions, and poor infrastructure in several universities, colleges and other institutions of higher education. The 12-times increase in allocations to technical education will also be justified, given the huge backlog of public investment in this sector on the one hand, and the increasing demand for professional and technical education on the other.

However, the suggested intra-sectoral pattern should not be taken as inflexible. These figures should be taken more as indicative. It may hold good probably for the next five years, and it need not be held rigidly for the next decade as a whole. If significant progress is achieved in elementary education, and if it results in rapid

growth in demand for secondary and higher education as one may rightly expect, the suggested distribution to be altered, say after the first five years, i.e., from 2010-11 onwards, first in favour of secondary education and later higher education. Or if additional investments for improvement in quality of school education are required, the distribution may marginally be altered in favour of elementary or secondary education. However, the rapid demographic transition that is taking place in many states in India resulting in declining growth in primary school-going age children may not necessitate this. In fact, these states may save resources in primary and upper primary education, and may have to reallocate their resources from quantitative expansion towards improvement in quality in elementary education and to secondary education.

Concluding Observations

Before we conclude, a few important issues may have to be emphasised:

The recommended allocations presuppose formulation of proper plans, schemes, and setting up mechanisms for spending the resources efficiently. In the absence of fulfilment of such prerequisites, increased allocation of resources may lead to wasteful spending or misuse of resources. In short, the absorptive capacity of the system has to be raised.

Secondly, the recommended allocations need to be complemented by investments in other sectors. Some of these complementary investments fall outside the education sector. For example, it is not enough if schools are set up to attract girl children in rural and even in urban areas. Complementary investments in the form of setting up proper security mechanisms for girl children on roads, street lighting, transport, etc., are important. Similarly, unless child labour laws are effectively implemented, parents may still continue to opt to send their children to work rather than to schools. Sustainable mechanisms of rehabilitation of children withdrawn from work, to allow them to enter and continue in schools have to be developed. Obviously these are not investments in education, but are necessary complementary investments.

Thirdly, it may be reiterated that the suggested levels of expenditure have to be met from government resources – the centre and the states – and that they are not inclusive of any contributions from the private sector, the community in general and students and parents in particular. All non-governmental resources will be additional.

It has to be noted that it will require stupendous efforts on the part of the government to raise the allocations to the estimated levels. Some might fear that given the past and likely trends in the future with respect to GDP and budget revenues and expenditures of the central and state governments and given the Fiscal Responsibility Management Act passed by Parliament, it might not be possible in the near future to raise public expenditure on education to 6 per cent of GDP. Though Fiscal Responsibility Management Act is a major constraint in raising resources, we need and should not be obsessed with it; we should be flexible on this, considering the development needs of economy and of various states in particular.

Reaching the goal of 6 per cent of GDP is a difficult but not an impossible task, if there is political will. Allocations to education can be increased either (i) by reallocating resources from other sectors, or (ii) by raising more resources by the government for the common pool or specifically for the education sector or (iii) by both. Reallocation of resources from other sectors should not be viewed as if it takes place at the cost of other sectors; after all almost all other sectors are beneficiaries of investments in education. Hence, a generous approach needs to be adopted in allocation to and reallocation of resources in favour of education.

There is a need to search for methods of mobilisation of governmental and non-governmental sources of funds for education. Though the principle of a differential fee system in higher education may be appealing, it may not help to raise enough resources to fill the gap in resource requirements to meet the target. Besides, it may create different kinds of problems. Therefore, there is a strong case for raising the level of public expenditure on education. The government's resource base can be increased by improving the system of taxation – taxes, tax structure and tax collection. As argued in a meeting held at National Institute of Educational Planning and Administration (NIEPA) on the report of the committee,⁶ the scope for raising more tax and non-tax revenues needs to be examined, that includes expanding the coverage of taxes such as service tax and to eventually make it a goods and service tax,⁷ and the scope for raising revenues specifically from the rich. Perhaps one can identify a variety of tax and non-tax revenue generating measures. Further improved administration and information system can considerably raise revenues even within the existing tax structure.

Overall, one may say that there is vast potential to generate additional revenues through various measures. Construction of simulation models to assess the impact of tax rate variations for resource mobilisation for education may provide important clues for policy formulation.

Presently, the tax/GDP ratio is around 15 per cent (2003-04), almost same as in 1990-91, and this may have to be raised.⁸ In many developed countries, the corresponding ratio, based on central government tax revenues alone is much higher: 24 per cent in Australia, 27 per cent in UK, 28 per cent in Norway, and 30 per cent in Denmark, New Zealand (in 2003).⁹ Many feel that though there is vast potential to raise substantial additional revenues and to improve the tax-GDP ratio, there is no mechanism to see that additional revenues will be allocated to education. One way is for "ring-fencing", i.e., to link revenue increases in the common pool of resources to an increased allocation of resources to specific sectors like education or to legislate to ensure an allocation of a given proportion of additional tax/cess revenues for education.

The need and scope for building-in education components, particularly of capital nature, in programmes such as 'Bharmat Nirman', rural employment guarantee scheme, etc., has also to be examined.

Many also argue that the private sector can play an important role in education. However, in the case of education, goals and instruments are organically linked. The market is a good instrument for measuring certain kinds of household preferences but not necessarily all preferences relating to education. Reliance on markets will not produce desirable levels of investment in education, in research and development activities or in social sciences in higher education.

To conclude, it is well known that the continuance of illiteracy on a large scale in the adult population and the large numbers of children still outside the school system along with the high rates of dropout and the low rates of success in schools (and colleges) – all resulted in very low levels of the average effective years of schooling of the population in our workforce. The severe inadequacy in quality and quantity of human capital (in the shape of teachers and educational administrators) and of the physical infrastructure, the wide rural-urban, interstate and intrastate inequalities in levels of educational attainment, along with the low levels of the quality of educational output – all have lent thrust to the current demand for a continued "liberal

approach" to the question of state funding of education in India.

In this context, there is a basic need to redefine the approach for assessing the need for public funding of education in India. Apart from accepting the right to education as a basic human right under the Constitution as interpreted by the highest judiciary in the country, the state has to recognise unambiguously that in India education serves today as a public good at almost all levels, producing huge externalities. It has always been an important instrument for levelling social status and for empowering the weaker sections by providing occupational, social and economic upward mobility directly and by qualitatively improving the productivity of the workforce. All in all, investment in education has become, for the India of the 21st century, the most crucial component of investments in human development – in fact, the most credible means at its disposal for the creation of the knowledge society.

Basically there is a need to change the approach to funding education. It has to be recognised that it is a public good, a merit good, a basic human right and an important instrument of socio-economic equity, besides being an important investment in human development as a whole, with intrinsic value of its own. As the education commission (1966:892) warned "In an age of science, there can be no greater risk than a policy of drift and niggardliness in education..."¹⁰

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Notes

[This draws from the *Report of the Committee on National Common Minimum Programme's Commitment of 6 per cent of GDP to Education*, Government of India, Ministry of Human Resource Development/National Institute of Educational Planning and Administration, November 2005. Chairman: Tapas Majumdar; members: Jayati Ghosh, R Govinda and member-secretary Jandhyala B G Tilak, [http://www.niepa.org/whatsnew.htm]

- 1 *Report of the CAFE Committee on Financing Higher and Technical Education*, Central Advisory Board of Education, Ministry of Human Resource Development/National Institute of Educational Planning and Administration, New Delhi, June 2005, Chairman: B Mungekar, member-secretary: Jandhyala B G Tilak [http://www.niepa.org/whatsnew.htm]
- 2 Eg. *Education for All: Global Monitoring Report 2004*, UNESCO, Paris; and *Investing in Development: A Practical Plan to Achieve the Millennium Development Goals*, UN, New York, 2005.
- 3 See for example, among other, M R Kolhatkar, 'Education Expenditure in India in Relation to National Income (1980-88): Trends and Implications', *Journal of Education and Social Change*, Vol 2, No 2 (1988) (also circulated as

a paper from the Planning Commission); the *Economic Survey 1998-99* (p 150); and the *Draft Ninth Five-Year Plan* (Vol II, p 101). See, for a comment, Jandhyala Tilak, 'National Human Development Initiative: Education in the Union Budget', *Economic and Political Weekly*, (March 6, 1999).

- 4 There are also several other studies that estimated the requirements of education sector, which stressed the need for a substantial increase in allocations; they however, have not estimated the requirements as a proportion of national income. See for example, Tilak, 'A Note on Resources for Education in India', National Seminar on Financing of Education, Madras Institute of Development Studies, Madras, 1985 (paper prepared for ministry of education, government of India, in the context of the National Policy on Education 1986); and Tilak and Varghese, 'Resources for Education for All', *Journal of Education and Social Change*, 4 (4) (January-March 1991): 24-59 (paper prepared for the Planning Commission in the context of the Seventh Five-Year Plan.
- 5 See, for example, C Rangarajan: 'Fiscal Restructuring', Keynote Address, Conference on India: Fiscal Policies to Accelerate Economic Growth, National Institute of Public Finance and Policy, New Delhi /Department for International Development (UK)/World Bank (May 21-22, 2001) (mimeo).
- 6 Resume of the Proceedings of the Discussion Meeting on the Report of the Committee on NCMP's Commitment of 6 per cent of GDP to Education, National Institute of Educational Planning and Administration, New Delhi, December 2005 (http://www.niepa.org/whatsnew.htm).
- 7 A recent study of the National Institute of Public Finance and Policy (NIPFP) suggests that measures such as bringing agricultural incomes of companies, which are now going into the farm sector in a big way, under taxation, withdrawing the excise exemptions to small-scale industries and area based tax holidays may yield Rs 57,000 crore of additional tax revenue. As noted by the committee headed by M Govinda Rao extending the net of service tax to all but a specified few also can augment revenues substantially.
- 8 *Indian Public Finance Statistics 2003-04*, Ministry of Finance, Government of India, New Delhi.
- 9 *World Development Indicators, 2005*, World Bank, Washington DC.

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