

CHAPTER - IX

FINANCING OF EDUCATION BY THE PUBLIC SECTOR

Our main purpose in this Chapter is to analyse the trends in the financing of education by the public bodies over the last decade and a half in relation to the increase in national income as well as in the government expenditure on other public heads such as defence, social and developmental services.

TABLE - I

Public Expenditure on Education by Sources

(Direct + Indirect)

(In Rs. million)

Year	Source of Public Expenditure on Education					Proportion of the total recorded educational expenditure financed by the public sector
	Central Govt.	State Govt.	District Boards	Municipal boards	Total (a+b+c+d)	
	a	b	c	d	e	f
1950-1951	29.7 (3.9)	603.3 (79.3)	78.5 (10.3)	46.1 (6.1)	757.6 (100.0)	68.1
1960-1961	272.0 (10.8)	2022.6 (80.2)	177.9 (7.1)	105.8 (1.9)	2518.3 (100.0)	74.4
1965-1955	498.0 (10.9)	3696.0 (80.9)	166.7 (3.9)	208.0 (4.3)	4568.7 (100.0)	77.5
Growth rate	1576.7	512.5	116.3	351.2	503.1	

Note: (A) Figures in brackets refer to the proportions of total public expenditure (Col.e) incurred on education in 1950-51, 1960-61 and 1965-66 met from different public bodies.

(B) Public expenditure figures for the year 1965-66 are based on the Report of the Education Commission, 1964-66, Ministry of Education, Govt. of India.

As can be seen from the above table, the public expenditure on education of Rs.757.6 million in 1950-51 rose to Rs.2518.3 million in 1960-61 and from that it went upto Rs.4568.7 million in 1965-66. This gives a growth rate of 501.3 per cent for the period as a whole.

The state governments bear four-fifth of the public expenditure incurred on education and they have, more or less, maintained this position relative to other sources over the period under review.

The Central Government met only 3.9 per cent of the public expenditure incurred on education in 1950-51 as against 10.3 per cent and 6.1 per cent (or 16.4 per cent jointly by Local Governments) met by the District and Municipal Boards respectively. In 1960-61 the Central Government occupied a higher position and relegated to the background the Local Governments. The share of the District and Municipal Boards in the public expenditure on education was 7.1 per cent and 1.9 per cent respectively whereas the Central government's share was as high as 10.8 per cent. A similar trend continued even during the following five years of the Third Five Year Plan. The proportion of the total public expenditure met from the Central Government's funds was 10.9 per cent in 1965-66 whereas that met from the Local Governments was 8.2 per cent.

In absolute amount also, both in 1960-61 and 1965-66, the contribution of the Central Government was considerably higher than that of the Local Governments. In 1965-66, the Central Government's expenditure on education was Rs.498.0 million whereas that of the District Boards was Rs.166.7 million and that of the Municipal Boards was Rs.208.0 million. That is why the overall growth rate of 1576.7 per cent in the expenditure incurred on education by the Central Government is higher by 14 times and 4.5 times than that of 116.3 per cent and 351.2 per cent for the District and Municipal Boards respectively. The growth rate of 1576.7 per cent is also three times greater than that of 512.5 per cent obtained for the state governments.

In order to have a full view of the Central Government's contribution to the development of education in India, the amount of grants-in-aid given by the Centre to the State Governments specifically for the development of education (In the above table, this amount is shown as having come from the state governments) should, really speaking, be included in the Central Government's expenditure on education.

The amount of the grants-in-aid in 1950-51 was Rs.2.3 million which rose to Rs.239.8 million in 1960-61. In 1965-66 it went upto Rs.372.0 million.

TABLE - II

Grants-in-aid given to the States by the Centre

(In Rs.million)

Year	Central Govt.'s expenditure on education	State Govt.'s expenditure on Education Met out of State Revenue	Central Govt.'s expenditure on Education Met out of the Centre's grants-in-aid	Central Govt.'s expenditure on education (2+4)	Col.5 as a % of Col.e of Table-I
1	2	3	4	5	6
1950-1951	29.7 (3.9)	601.0	2.3	32.0	4.2
1960-1961	272.0 (10.8)	1782.8	239.8	511.8	20.3
1965-1966	498.0 (10.9)	3324.0	372.0	870.0	19.3

Notes: (1) Figures in brackets in Col.2 denote the proportion of the Central Government's expenditure on education to total public expenditure on education.

(2) Figures in Col.4 are based on the Report of the Education Commission.

The proportion of the public expenditure on education met from the Central Government's funds goes up once the amount of grants-in-aid to the states is included in the Central Government's expenditure on education. As can be seen from the above table, the proportion moves up from 3.9 per cent to 4.2 per cent in 1950-51. It moves up from 10.8 per cent to 20.3 per cent in 1960-61 and in 1965-66 to 19.3 per cent from 10.9 per cent.

The Central Government is financing an increasing proportion of the public expenditure on education. But it still occupies a relatively less important place in the overall scheme of education and finance.

Over the decade of 1950's the public expenditure on education increased by 252.4 per cent as against an increase of only 48.4 per cent in national income in current prices. During the first half of the present decade, the public expenditure on education increased by 81.4 per cent whereas the national income increased by 48.5 per cent in Current prices. Thus while the public expenditure on education has a tendency to absorb a larger and larger proportion of national income, this tendency seems to have slackened considerably in the present decade. In 1950-51 the public expenditure on education formed 0.8 per cent of national income, whereas in 1960-61 and 1965-66 it accounted for 1.8 per cent and 2.1 per cent of national income respectively.

Investment in education, no doubt, accelerates the growth of national output of an economy but only after a time interval. This is because investment in education has a long gestation period. During this ~~intervening~~ period some one should continue financing the development of education. Thus on the one hand the development of education tends to

outstrip the growth of national income, whereas on the other hand, educational investment materialises after a lapse of time. This means that the burden of education will increase, especially on the main sources financing education. Since in most countries education is largely financed by the government, the burden on government - Central, State and Local - will increase.¹ In India the government sector shared 77.5 per cent of the total expenditure incurred on education in 1965-66.

Total expenditure, both on Revenue and Capital Account, incurred by the Central and State governments was Rs.9,379 million in 1950-51, forming 9.8 per cent of national income. The corresponding figures for 1960-61 and 1965-66 were Rs.25,371 million (17.9 per cent of national income) and Rs.52,978² million (25.2 per cent of national income) respectively. The rapid increase in the proportion of national income devoted to public ends in the current decade can be accounted for principally by the fact that during the first-half of the current decade defence

† See John Vaizey, 'The role of education in economic development', in "Planning Education for Economic and Social Development" - (ed.) Herbert S. Parnes, O.E.C.D., Paris, 1961.

2 From the "Total disbursements on capital account", both of the Central and State Governments, we have taken into account only total capital outlay and excluded the outlay on the discharge of permanent debts and loans and advances.

expenditure increased by more than three times from Rs.2,809.4 million in 1960-61 from Rs.9466.2 million in 1965-66. The increase in defence expenditure during the preceding full decade, was of the order of 67 per cent. Defence expenditure as a proportion of total expenditure was 17.9 per cent in 1950-51. It declined to 11.7 per cent in 1960-61 but went up again to 17.9 per cent in 1965-66. The period from 1950-51 to 1960-61 was free from wars and other such intrusions, whereas during the Third Five Year Plan period India was attacked twice—first by the Chinese and then by Pakistan.

TABLE - III

Proportion of Total Expenditure Devoted to
Education and Defence
(Central and States Governments combined)

(In percentages)

Year	Total Expenditure devoted to		
	Education		Defence
1	2	3	4
1950-51	6.8	8.2	17.9
1960-61	9.4	10.2	11.7
1965-66	7.9	9.6	17.9

Note: Figures in column 2 denote the proportion of the expenditure incurred on education inclusive of defence expenditure and those in column 3 are exclusive of defence expenditure.

From Table III, it can be seen that during the period 1950-51 to 1960-61, the proportion of total expenditure incurred on education (whether including or excluding the expenditure incurred on defence) increased, whereas that devoted to defence declined. The proportion of the expenditure incurred on education moved up from 6.8 per cent in 1950-51 to 9.4 per cent in 1960-61 (See Col.2) and that from 8.2 per cent in 1950-51 to 10.2 per cent in 1960-61 (See Col.3). As against this, that devoted to defence declined to 11.7 per cent in 1960-61 from 17.9 per cent in 1950-51.

In contrast to this, during the first half of the current decade, the proportion of total expenditure incurred on education declined to 7.9 per cent in 1965-66 from 9.4 per cent in 1960-61 (See Col.2). And that incurred on defence went up from 11.7 per cent in 1960-61 again to the original level of 17.9 per cent in 1965-66. This goes to show that there is an inverse relationship between the expenditure incurred on education and defence.

As can be seen from Table IV, the expenditure incurred on defence over the period 1950-51 to 1960-61, increased by 67 per cent whereas that on education increased by 262 per cent. The expenditure incurred by the Central and State

TABLE - IV

Expenditure on Public Heads (Central and State Governments Combined)

Item	(In Rs. million)			
	1950-51	1960-61	1965-66	Growth rate over the period (1950-51 to 1965-66)
(a) Agriculture and Co-Operation	287.2 (3.6)	956.6 (3.7)	1995.4 (3.8)	233.0 108.6
(b) Industrial Development	270.7 (2.9)	1905.4 (7.5)	2436.7 (4.6)	604.0 98.2
(c) Irrigation (including multi-purpose river schemes)	719.9 (7.7)	1608.9 (6.3)	3493.4 (6.6)	123.5 117.1
(d) Civil works	778.4 (8.3)	2374.8 (9.4)	3646.5 (6.9)	205.1 53.5
(e) Public Health	312.2 (3.3)	945.2 (3.7)	1676.9 (3.2)	202.7 77.4
				444.3

Note: Figures in brackets refer to the proportions of the total expenditure devoted to Agriculture and Co-Operation, Industrial Development, Irrigation, Civil Works and Public Health. Figures for the State Governments pertain to the year 1951-52.

Sources: i) Report on Currency and Finance for the year 1965/66. Reserve Bank of India, Bombay, 1966.
ii) Budgets - Ministry of Finance, Government of India.

governments on agriculture and cooperation, civil works and medical and public health recorded more or less the same percentage increase that was obtained for education. The respective growth rates are 232 per cent, 205 per cent and 203 per cent. The amount spent on the development of industries showed a much faster growth rate of 604 per cent. And that on irrigation (including Multipurpose River Schemes) showed an increase of 124 per cent.

All the above growth rates pertaining to social and developmental services far exceeded that of defence.

This indicates that the slower rate of growth in expenditure devoted to defence, enabled the governments to increase expenditure on social and developmental services at a faster pace and thereby to raise the proportionate share of social and developmental services in the total (see figures in brackets in Columns 2 and 3 of Table IV). Only for irrigation, the proportion of expenditure declined from 7.7 per cent in 1950-51 to 6.3 per cent in 1960-61.

For the Third Five Year Plan period (1960-61 to 1965-66) the percentage increase in the expenditure incurred on defence was much higher than that in the social and developmental services. The expenditure on defence increased by 237 per cent whereas that on education went up by 83 per cent.

The expenditure incurred on agriculture and co-operation, industries and irrigation moved up by 109 per cent, 98 per cent and 117 per cent respectively. These growth rates are higher than the growth rate obtaining for education but lower than the growth rate for defence. This explains why as a proportion of non-defence expenditure, education suffered a set back (see Column 3 of Table III).

That is why the tendency of the public expenditure on education to absorb a growing proportion of national income, as has been observed, has slackened considerably in the present decade.

For the Central Government separately also we get more or less an identical picture of the relationship between the expenditure incurred on defence and education and on social and developmental services as that obtained for the Central and State Governments combined.

TABLE - V

Proportion of the Central Government's Expenditure devoted to Education and Defence

(In Percentages)

Year	Proportion devoted to education		Proportion devoted to defence
1	2	3	4
1950-51	0.8	1.3	40.3
1960-61	4.2	5.4	22.8
1965-66	3.4	4.6	33.1

Note: Figures in Col.2 denote the proportions of expenditure incurred on education inclusive of defence expenditure whereas those in Col.3 are exclusive of defence expenditure.

It can be seen from Table V that the proportion of the Central Government's expenditure incurred on defence declined from 40.3 per cent in 1950-51 to 22.8 per cent in 1960-61. The percentage increase in defence expenditure ^{was} also much slower at 67 per cent. Consequently, the proportion of the Central Government's expenditure devoted to education and other social and developmental services increased and showed much faster growth rates than that for defence (See Table V & VI). The growth rate for education (including grants-in-aid for education given to the States by the Centre) was of the order of 1500 per cent.³ The growth rates for agriculture and co-operation and industrial development were 863 per cent and 892 per cent respectively whereas those for public health, scientific departments and civil works were 584 per cent, 391 per cent and 251 per cent respectively (See Table VI).

The proportion of the Central Government's expenditure incurred on defence again rose to a higher level of 33.1 per cent in 1965-66. Consequently, that devoted to education and other services declined (See Tables V and VI).

The proportion of the State Governments' expenditure incurred on education and on other social and developmental

3 The Growth rate of the expenditure incurred on education by the Central Government, exclusive of the amount of grants-in-aid, works out to 816 per cent.

TABLE - VI

Central Government's Expenditure on Major Public Heads (Revenue & Capital Account)
(Other than Defence and Education)

Item	1950-51 (In Rs. Million)	1960-61 (In Rs. Million)	1965-66 (In Rs. Million)	Growth Rate (%)	
				Decennial growth rate (1950-51 to 1960-61)	Five year growth rate (1960-61 to 1965-66)
	2	3	4	5	
Agriculture and Co- Operation	27.0 (0.7)	260.1 (2.1)	237.9 (0.8)	863.3	-9.4
Industrial Development	154.5 (3.7)	1532.3 (12.4)	1642.5 (5.8)	891.8	7.2
Irrigation (including Multipurpose River schemes)	27.8	24.2	213.3	- 14.8	740.1
Civil Works	160.9	564.1	1010.2	250.6	79.1
Scientific Departments	43.5 (1.4)	213.6 (1.7)	378.4 (1.3)	391.0	77.2
Medical and Public Health	20.0 (0.5)	136.8 (1.1)	151.1 (0.5)	584.0	10.5
					655.5

Note:- Figures in brackets refer to the proportions of the Central Government's expenditure devoted to Agriculture and Cooperation, Industrial Development; Irrigation, Civil Works, Scientific Departments and Medical and Public Health.

Source: Report on Currency and Finance for the year 1965-66, Reserve Bank of India, Bombay, 1966.

TABLE - VII

State Governments' Expenditure on Major Public Heads (Revenue and Capital Account)

(In Rs. million)

Item	1951-52	1960-61	1965-66	Growth Rate (%)	
				Decennial growth rate (1950-51 to 1960-61)	Five-Year growth rate (1960-61 to 1965-66)
1	2	3	4	5	6
Education	601.0 (11.6)	1782.8 (13.7)	3324.0 (13.6)	196.6	87.0
Agriculture and Co-operation	260.2 (5.0)	696.4 (5.3)	1757.5 (7.2)	167.6	152.4
Industrial development	116.2 (2.2)	373.1 (2.9)	794.2 (3.3)	221.0	112.9
Irrigation (including multipurpose river schemes)	692.1 (13.3)	1585.0 (12.1)	2750.1 (11.3)	129.0	74.8
Civil Works	619.7 (11.9)	1821.8 (13.9)	3649.1 (10.9)	193.9	45.3
Public Health	292.2 (5.6)	808.4 (6.2)	1525.8 (6.3)	176.6	88.8
Rural and Community Development Projects	8.2 (0.2)	523.1 (4.0)	870.2 (3.6)	6279.3	66.3
Others	111.6 (2.2)	524.9 (4.2)	1139.1 (4.7)	370.3	120.8
					259
					920.7

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Note : Figures in brackets refer to the proportions of the State government's expenditure devoted to Education, Agriculture and Cooperation, Industrial Development, Irrigation, Civil Works, Rural and Community Development Projects and others.

Source: Report on Currency and Finance for the year 1965-66, Reserve Bank of India, Bombay, 1966.

services increased (the proportion declined for irrigation and civil works) over the period under review (See Table VII).

The above can be taken to show that during the process of economic development education alongwith the other developmental and social services grows in importance as a claimant on the nation's resources unless an extra-ordinary circumstance intervenes.

Conclusion :

The share of the government in the total ^{recorded} educational expenditure (direct + indirect) increased during the period from 1950-51 to 1965-66. The State Governments finance 80 per cent of the public expenditure incurred on education. And that financed by the Central Government no doubt increased over the period, but it still occupies a relatively less important place in the overall scheme of educational finance. The share, both of the District Boards and Municipal Boards in the total public expenditure, declined.

The proportion of the total expenditure (on Revenue Account and Capital Account) devoted to defence declined over the decade of 1950's, whereas that devoted to education and social and developmental services increased. Even the proportion of the non-defence expenditure incurred on education showed an increase.

During the Third Five Year Plan period, the proportion of the total expenditure incurred on defence increased and that devoted to education and other public heads declined. Even as a proportion of non-defence expenditure, education suffered a setback. This is because of the fact that other social and developmental services recorded a faster increase than that for education. This explains that though the public expenditure on education has a tendency to absorb a growing proportion of national income, this tendency seems to have slackened during the Third Five Year Plan period.