Journal of Education and Practice
ISSN 2222-1735 (Paper) ISSN 2222-288X (Online)
Vol.6, No.12, 2015

Merit Goods, Education Public Policy– India At Cross Roads

Dr. Satya Narayan Misra
Director, School of Leadership, KIIT University, Campus-4, Chintan Building, Patia, Bhubaneswar-751024
E.mail-misra.sn54@gmail.com

Mr. Sanjaya Ku. Ghadai
Executive, School of Leadership, KIIT University, Campus-4, Chintan Building, Patia, Bhubaneswar-751024
E.mail-ghadaisk77@gmail.com

ABSTRACT

Merit Goods have always received handsome attention and allocation from countries which have witnessed a congruence between high significant economic growth and Human Development Index (HDI). The Emerging Market Economies (EMEs) have become significant manufacturing hubs by universalizing education and improving their Incremental Capital Output Ratio (ICOR). Allocational priority to sectors like education, health and sanitation and their easy accessibility and affordability to people Below Poverty Line (BPL) hold the key to inclusive growth. The paper brings out how our poor development records in terms of Infant Mortality Rate (IMR), Maternal Mortality Rate (MMR), and Gini Coefficient can be substantially mitigated by better allocational commitment, high Research & Development, allocation, improvement in factor productivity and global collaboration.

KEYWORDS: HDI, ICOR, BPL, EMEs, IMR & MMR

INTRODUCTION

There is a perception amongst discerning analysts that India's growth story, post liberalization, does not converge with the human development priority. The policy dissonance between bolstering economic infrastructure and dwindling allocation to the merit goods sector over the years has been an area of serious concern. Budget 2015-2016 has further exacerbated this trend instead of reversing it.

This paper attempts to highlight the importance of allocation to merit goods in general and the educational sector in particular, evolution of policy leitmotif & allocation trends in India so far and suggest a road map to have the right synergy between growth and development. In order to ramp-up our Human Development Index, rather than being caught up in ideological slugfest its' time we match hyperboles like Make in India, Digital India, Make for India and Smart City, JAM with a definitive development roadmap.

IMPORTANCE OF MERIT GOODS

Prof. Richard Musgrave was the first economist to highlight the importance of merit goods like education, health and sanitation where the benefit that accurse to an individual is less than the benefit to the society. Accordingly developed economies, cutting across ideological allegiance, spend handsome allocation in such sectors. This is reflected in the very high human development index that countries like USA (0.914), Japan (0.890) and emerging market economies like South Korea (0.891) and China (0.719) evince while India languishes with a lowly figure of (0.586) as per the Human Development Report, 2014. This is ironical since the founding fathers of the Indian Constitution like Ambedkar, Gandhi and Nehru were men of vision and had the benefit of higher education abroad with deep commitment to usher in a liberal vibrant India. In recent years Nobel Laureate Amartya Sen has been consistently clamoring for greater attention in our public policy towards higher allocation to education and health**. The Planning Commission has also been harping on the triad of Access, Equity and Excellence in education and Access, Affordability and Quality in Health.** However, in case of education quality has been the biggest concern while affordability and poor quality bedevils the public health sector. Overall sanitation remains extremely dodgy and PM's call for Swatch Bharat brings in a whiff of hope for the vast majority of **poor Indians who seem to have lost the trickledown rhetoric of growth.**

ALLOCATION TO THE MERIT GOODS SECTOR

The following table brings out the allocation made this year compared to the previous year in merit goods sectors like education, child & women development, health and sanitation.

Table 1: Allocation to Merit Goods in Rs. Cr.

PROGRAM	2014-2015	2015-2016	% Change
School Education	46850	42219	-0.1
Higher Education	23700	20855	-7.9
Integrated Child Development Scheme (ICDS)	16316	8000	-49.0
Women & Child Development	18588	10382	-55.8
National Health Mission	12393	14000	2.9
Swachha Bharat	11938	6000	-50.2

Source: India's Budget Document-2015-2016

It would be seen from the above that there is a significant reduction in allocation to major programmes like ICDS, Swachha Bharat, Women and Child development. The ostensible reason given by the finance minister is that the states concerned should take initiatives in this regard in view of significantly higher allocation by the 14th Finance Commission. This is surprising keeping in view the fact that the government has increased its investment in economic infrastructure by investing Rs.20,000/- crore in the national Infrastructure Investment Fund and kick starting a Mudra bank with equity base of Rs.20,000/- crores for encouraging credit availability to the SSI/MSME sector.

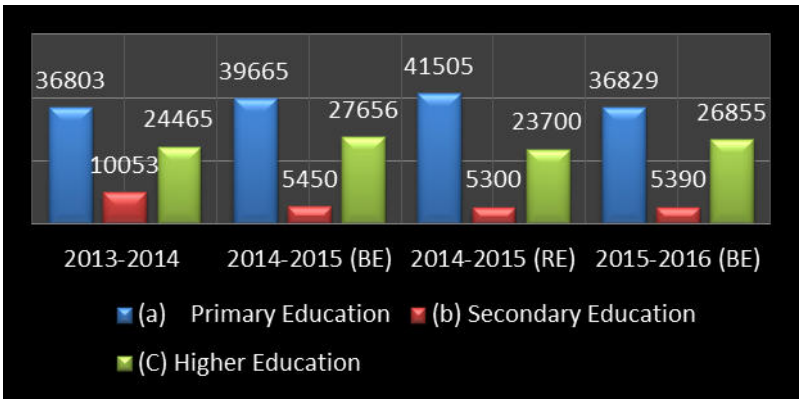
Education is a critical billboard where a nation's expectation and aspiration are squarely perched meaningfully etched. The following table brings out the allocation to primary, secondary and higher education over the last two years and the allocation made in this years' budget.

Table 2: Allocation to Different Segment of Education (Rs. Crore)

Type of Education	2013-2014	2014-2015 (BE)	2014-2015 (RE)	% Change	2015-2016 (BE)	% Change
(a) Primary Education	36803	39665	41505	12.8	36829	-11.3
(b) Secondary Education	10053	5450	5300	-47.3	5390	1.7
(C) Higher Education	24465	27656	23700	-3.1	26855	13.3
Total	***71321***	***72771***	***70505***	***-1.1***	***69074***	***-2.0***

Source: India Budget: 2015-2016, MHRD

Figure 1: Allocation to Education



It would be seen from the above that

- There has been a marginal drop in the overall allocation this year compared to 2014-2015 (Revised Estimates (RE)
- There is a significant decline (50%) is in the allocation towards secondary education for the last two years compared to 2013-2014

- There are persistent surrenders at the RE stage compared to the initial allocation at (Budget Estimates (BE) stage

Such trends are disquieting largely because the share of education has remained sticky around 3% of GDP; a sort of Hindu Rate as against 6% promised by the HRD minister during August 2014 and recommendation of Kothari Commission (1966); Knowledge Commission (2009). Also inadequate allocation to secondary education which provides employment to semi formal sector and a gateway to higher education is indeed a distressing trend.

EDUCATION POLICY

During pre independence the educational policy essentially sub served the colonial interest through English education. The establishment of universities in the metropolitan centres of Calcutta, Madras and Bombay and the mushrooming of colleges created an elitist edifice within the Indian society. This did not promote the cause of either Science & Technology or building a significant industrial base in India, as supply of cheap raw material through a network of railways by foreign commercial capital sub-served the colonial interest of manufacturing centres of Great Britain.

Post independence, the Radha Krishnana Committee (1949) flagged the importance of higher education and the need for creation of a regulatory body. This led to the establishment of University Grants Commission in 1956. The Kothari Commission (1966) was the first definitive recommendatory body which inked for India a vision of **Science and Technology as the harbinger of hope and growth**. It also underlined the need for **high allocation of 6% to education sector out of India's GDP.**

The subsequent National Policy on Education of 1986 and 1992 flagged on the importance of greater **Access and Equity as prime concerns without etching any definitive roadmap for bolstering excellence.** In the wake of liberalization wafting through the corridors, the thrust has been to leave higher education to private sector initiative. Thanks to substantial private sector investment in technical and management education during the last decade, the GER has improved from 10% (2001) to nearly 20% (2014). Three Commissions viz. Birla-Ambani Committee (2000), The Knowledge Commission (2009) and Narayan Murthy Commission (2012) have addressed the needs of higher education policy. Pandering to the corporate sector interests the commissions have the following refrain.

- *Higher education should be left to the private sector initiative with thrust on creation of knowledge clusters and promotion of technical and management education.*
- *FDI inflow should be encouraged in Science and Technology and Management related courses while Liberal Arts courses should be left to indigenous initiative.*
- *Regulatory mechanism through UGC be replaced by IRHAE on the lines of Telecom Commission to foster excellence.*
- *Government should act as a facilitator and promote public-private sector participative investment.*
- *Government budget on higher education should be increased by atleast 1.5% of GDP.*
- *Provide autonomy to the universities in matter of course structure, salary structure for teachers and fee to be charged from students.*

The Companies Act (2013) provides a CSR policy which enjoins upon the private corporate sector to contribute handsomely to the education sector in terms of research grants, fellowship and scholarships and improvement of infrastructure as is being done by corporate houses in the West. The private sector response to this has been far from satisfactory so far except for the Azim Premji Education Foundation.

GROWTH AND DEVELOPMENT DISSONANCE

India dismantled the License Quota Permit Raj in the 1990s and continued the momentum during the last decade to align itself with WTO guidelines and IMF conditionalities. This has impacted the saving in the private sector significantly, improved our export considerably and India has been one of the Break Out Nations. However, the

developmental parameters like drop out in primary education, IMR, MMR, under nourished children show a distressing trend as the following table would reveal.

Table 3: Growth and Development Indicators of India-Post Liberalization

PARAMETER	1988-1989	2012-2013
Growth Indicators		
GDP Growth	5.5	7.5
Savings	23.6	32
Export	13.1	25
Development Indicators		
Dropout in Primary Education	44%	36%
IMR (1000)	53	44
MMR (1 lakh)	260	212
% of Under Nourished Children	42.7	48.0

Source: Human Development Report 2014 & Montek Singh Ahluwalia

GLOBAL COMPARISON: IMR, MMR AND UNEMPLOYMENT

It would be interesting to see how India compares with other developed countries and BRIC countries like Brazil, Russia and China who have embraced a predominantly market friendly approach during the last three decades.

Table 4: HDI, MYS, IMR, MMR & Unemployment Percentage

Country	HDI	Mean Year of Schooling	IMR	MMR	Unemployment Rate %
USA	0.914	12.6	6	21	7.4
Germany	0.91	12.9	3	7	5.5
Japan	0.89	11.3	2	5	4.3
Korea	0.89	11.8	3	16	3.2
Brazil	0.74	7.2	13	56	6.2
Russia	0.778	11.7	9	34	5.5
China	0.79	7.5	12	37	4.1
India	0.586	4.4	44	200	9.3

Source: Human Development Report 2014

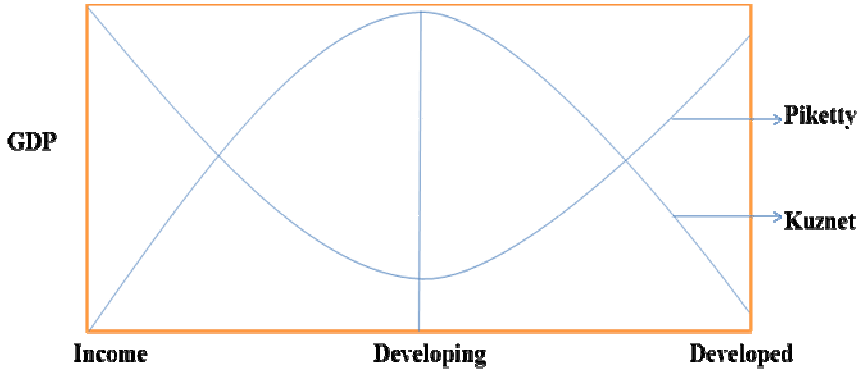
It would be seen from the above that our performance, particularly in stemming infant mortality and maternal mortality has been rather dismal. Prof. Sen brings out how even countries like Bangladesh have performed better than India on this score. Therefore the commitment of the public policy to merit goods like education and health would be critical India's track record on unemployment and employability have become matter of serious concern.

INEQUALITY AS A CONCERN

Prof. Kuznets had brought out that the Gini coefficient would typically increase for a country in a low income equilibrium trap as it moves up in the growth trajectory. However his inverted U hypothetic contends that after a high level of development the income inequality would decrease.

However Thomas Piketty in his seminal book "Capital" has brought out how inequality increases as a developed country acquires higher growth momentum; largely because the factor share of capital improves more compared to the share of labour. Piketty thus turns Kuznets upside down as the following figure would show.

Figure 2: Gini Coefficient

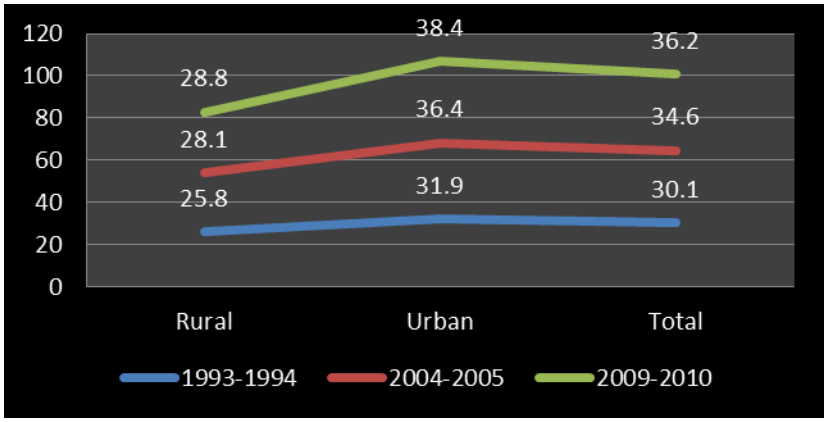


India seems to have fitted into Piketty's prediction as the following table would reveal.

Table 5: Gini Coefficient for India: Post Liberalization

Year	Rural	Urban	Total
1993-1994	25.8	31.9	30.1
2004-2005	28.1	36.4	34.6
2009-2010	28.8	38.4	36.2

Figure 3: Gini Coefficient for India



WAY FORWARD

(a) Adequate Allocation to Merit Goods Sector

Adequate commitment to the merit good sector in terms of allocational priority would be a significant pathway to higher human development index. The following table brings out the kind of allocation being made by developed countries and EMEs like China and Korea who have become global manufacturing hubs.

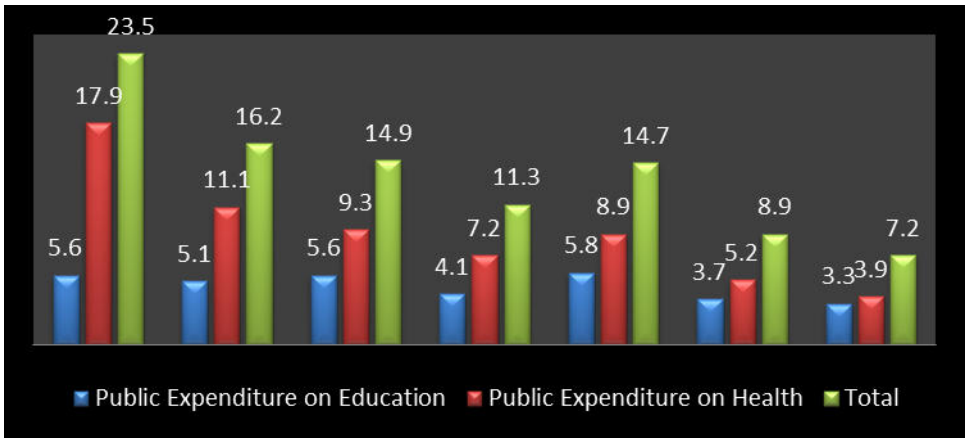
Table 6: Public Expenditure on Education and Health

Country	Public Expenditure on Education	Public Expenditure on Health	Total
USA	5.6	17.9	23.5
Germany	5.1	11.1	16.2
Japan	5.6	9.3	14.9
Korea	4.1	7.2	11.3
China	3.7	5.2	8.9
India	3.3	3.9	7.2

Source: Human Development Report 2014

If India wants to be part of global supply chain and realize the Make in India campaign by making India the preferred destination for global investment, joint venture etc. it has to invest at least 12% of its GDP on education and health.

Figure 4: Public Expenditure on Education & Health



(b) Incremental Capital Output Ratio and GDP Growth

Mr. Subir Gokhran has brought out how significant increase in the Incremental Capital Output Ratio has contributed to the sharp deceleration in the GDP growth of India compared to 2007-08, a year remarkable for **Highest Savings and Low ICOR and very high GDP growth; thanks to the liberalization initiatives.**

The following table brings out the trends thereafter.

Table 7: Incremental Capital Output Ratio and GDP Growth

YEAR	SAVINGS	ICOR	GDP GROWTH
2007-2008	36.8	3.95	9.3
2011-2012	30.8	4.96	6.2
2012-2013	31.8	7.04	4.5
2013-2014	30.6	6.5	4.7

Source: Economic Survey

The sharp increase in the ICOR is due to **supply side bottlenecks, high debt overhang and non realization of major structural reforms like Land Acquisition Act, Labour Reforms** and significant glitches in Public Private Partnership initiatives in different infrastructural projects. The key to the significant GDP growth of China compared to India has been largely due to low ICOR and high factor productivity. Robert Solow, the Novel Laureate, underscored the importance of factor efficiency through the following equation

$Q=A*K^{\Delta}L^{\beta}$ where Q refers to output, A refers to scale of production and level of technology, K & L are factor of production, capital and labour and Δ & β are factor intensities.

The following table brings out how the high growth period of China during 1979 to 1994 was largely due to improvement in factor productivity due to huge public investment in education and skill improvement.

Table 8 : Sources of Growth in China: Total Factor Productions

Parameter	1953-1978	1979-1994
Output Growth	5.8	9.3
Capital Input Growth	6.2	7.7
Labour Input Growth	2.5	2.7
TFP Growth	1.1	3.9
Contribution of Factors of Production	18%	42%

Source: A.P. Thirlwall - Economics of Development-Theory and Evidence

It would be seen for the above, improvement in factor productivity (Solow Residual) contributed nearly 42% of the high GDP growth of China during 1979-1994 compared to 18% during the period 53-78)

(c) Higher allocation to Research & Development

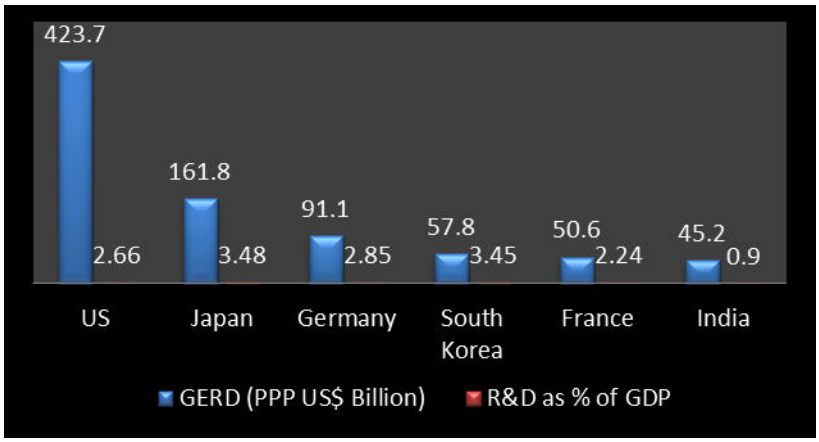
The overall allocation to research and development in the country is less than 1% (0.9) while most of the developed countries spend around 3% of their GDP. The following table will bring out the comparative R&D spend of the developed countries compared to India

Table 9: R&D Spenders in the World 2013

Country	GERD (PPP US$ Billion)	R&D as % of GDP
US	423.7	2.66
Japan	161.8	3.48
Germany	91.1	2.85
South Korea	57.8	3.45
France	50.6	2.24
India	45.2	0.90

Source: Battelle and R&D Magazine, 2013 Global R&D Funding Forecast, December 2012

Figure 5: R&D Spenders in the World 2013



(d) Collaboration with Foreign Universities: FDI Policy & Oversight

Our national educational policy remains completely out of sync with the times. Whereas countries in the Middle East, China and Singapore are going out of their way to woo foreign countries to set up campuses in their countries India turns away many of the academic universities who have come calling in recent years. Harvard and Yale extremely keen to open branches in India to offer quality education to Indian students but have been told to stay away. It is a matter of deep regret that parents spend an estimated $3 billion annually in sending their children abroad for education. Our FDI policy has to be realistic and the existing regulatory mechanisms through UGC, AICTE have only stymied this process.

CONCLUDING THOUGHTS

Jean Dreze has observed **"Sending rockets to Mars and running bullet trains but remaining a third world country as far as social services is concerned seem to be an odd view".** Coming as it does from the architect of Right to Food Act & MNREGA, it is really perceptive. The present government must make mid-course correction to its one-dimensional obsession with economic infrastructure & Ease of Doing Business only. The significant reduction in allocation to flagship programmes like Sarva Sikshya Abhiyan (SSA), MNREGA and Integrated Child Development Programme (ICDS) would dent our long term human resources capability. It was really unfortunate that the Finance Ministry got into a needless debate in 2000-post Birla-Ambani Report to term higher education as a non-merit good. Education, be it primary or higher needs to be considered as an integrated continuum. The health sector needs to also come out of the quagmire of poor quality infrastructure and inept paramedical and medical support in the public sector. Access to basic hygiene cannot be the piped dream for the marginalized. Education and health have become the captive concerns of the states who seriously languish in terms of funding. A federal government like India under the subterfuge of cooperative federalism must not absolve its responsibility of the development parameters of its aspirational population by passing on the responsibility to the states and local bodies. As Jefrey Sachs observes "our greatest illusion is that a healthy society can be built on mindless pursuit of wealth". It's time the government with definitive mandate clear the cobwebs of policy disconnects between growth and development.

References

Books

Corbridge, S., Harriss J. & Jeffrey, C. *India Today-Economy, Politics and Society*. Polity Press, UK, 2013

Debroy, B., Tellis, A.J. & Trevor, R. *Getting India Back on Track- An Action Agenda for Reforms*. Random House Publisher India Pvt. Ltd. Gurgaon, Haryana

Dreze, J. & Sen, A., (2013). *An Uncertain Glory India and its Contradictions*. Penguin Books India Pvt. Ltd, Panchsheel Park, New Delhi

Malhotra, R. *India Public Policy Report-2014 Tackling Poverty, Hunger & Malnutrition*. Oxford University Press, Jai Singh Road, New Delhi

Piketty, T. *Capital in Twenty First Century*. First Edition, Le Capital au XXI Siede, England, & Gopson Papers Ltd. India, 2014

Sachs, J. *The Price of Civilization-Reawakening Virtue and Prosperity after the Economic Fall*. Random House Group Limited, UK, 2011

Sharma, R. Breakout *Nations-In Search of the Next Economic Miracles*. Penguin Group, UK, 2012

Srinivasan, T.N. *Growth, Sustainability, and India's Economic Reform*. Oxford University Press, New Delhi, 2011

Thirlwall, A.P. (2011) *Economics of Development*. Ninth Edition, Palgrave Macmillan, New York

Magazine

Agarwal, P.(2007). Higher Education-I-From Kothari Commission to Pitroda Commission. *Economic and Political Weekly,* February 17, 2007

Altbach, G.P.(2009). The Giants Awake: Higher Education Systems in China and India. *Economic & Political Weekly*, June 6, 2009 VOL XLIV No 23

Weisskopf, T.E. Consequences of Affirmative Action in US Higher Education - A Review of Recent Empirical Studies. *Economic and Political Weekly,* December 22, 2001

Economic Survey 2014-2015*, Government of India*

Higher Education in India: Twelfth Five Year Plan (2012–2017) and beyond FICCI Higher Education Summit 2012

Human Development Report, 2014-Sustaining Human Progress: Reducing Vulnerabilities and Building Resilience-UNDP

India's Budget Document 2015-2016

The IISTE is a pioneer in the Open-Access hosting service and academic event management. The aim of the firm is Accelerating Global Knowledge Sharing.

More information about the firm can be found on the homepage:
http://www.iiste.org

CALL FOR JOURNAL PAPERS

There are more than 30 peer-reviewed academic journals hosted under the hosting platform.

Prospective authors of journals can find the submission instruction on the following page: http://www.iiste.org/journals/ All the journals articles are available online to the readers all over the world without financial, legal, or technical barriers other than those inseparable from gaining access to the internet itself. Paper version of the journals is also available upon request of readers and authors.

MORE RESOURCES

Book publication information: http://www.iiste.org/book/

Academic conference: http://www.iiste.org/conference/upcoming-conferences-call-for-paper/

IISTE Knowledge Sharing Partners

EBSCO, Index Copernicus, Ulrich's Periodicals Directory, JournalTOCS, PKP Open Archives Harvester, Bielefeld Academic Search Engine, Elektronische Zeitschriftenbibliothek EZB, Open J-Gate, OCLC WorldCat, Universe Digtial Library , NewJour, Google Scholar