

# PUBLIC SPENDING ON EDUCATION AND ECONOMIC GROWTH : EMPIRICAL EVIDENCE FROM ODISHA

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## Abstract

*Education in the literature has been considered to promote inclusive and sustainable economic growth and development of an economy. It has long been considered to enable individuals, especially women, to live and aspire to healthy, meaningful, creative and resilient lives by strengthening their voices in community, national and global affairs; to offer better livelihoods for those in the informal sector; and to prevent the transmission of poverty between generations. Thus, public expenditure on education can contribute to long-run development of an economy. It is in this context, this study was taken up to examine the dynamic causal linkages between government spending on education and real economic growth of Odisha over a sample period spanning from 1985-86 to 2014-15. It is found that both the variables have long-run equilibrium relationship among themselves. But the short-run dynamics infers the existence of unidirectional causation running from government investment in education to real economic growth of the state with a lag of 4 years. Thus, in Odisha the government's effort for achieving inclusive growth is justified. The state Government has been steadily moving towards achieving the national goal of universal education. There has been significant spatial and numerical expansion of elementary and secondary schools in the State over the years. Access and enrolment at the primary stage of education have reached near universal levels. The number of out-of-school children has reduced significantly. The gender gap in elementary education has been narrowed and the percentage of children belonging to SCs and STs enrolled is almost proportionate to their population. State is also showing an increasing performance in higher education. However, the policy makers in the state should pave the way forward with efficient budgetary allocations for development of education and eventual growth of Odisha*

## Introduction

In recent decades human development has been given utmost priority in the process of inclusive sustainable development of an economy. Human capital can improve the competitiveness and productivity in an economy which ultimately leads to higher economic growth (Korthals, 2010). Thus, people are considered the real wealth of a nation and all development activities centred on them (Mishra and Mishra, 2015b). And, the basic goal of development is to create an enabling environment in which people can enjoy long, healthy and creative lives (UNDP-HDR, 1990). It has been long realized that education can enable them to live healthier, happier, and more productive lives (Mishra and Mishra, 2015b). Education plays a vital role for empowering people with skills and knowledge. It is an important input which gives them access to productive employment in future. Education emancipates, empowers and opens up avenues for earning and helps upholding human dignity and hence is an important indicator of human development. Improvements in education are not only expected to enhance efficiency, but also augment the overall quality of life. Investment in education is, therefore,

a long-term social investment.

Education carries a high economic value and leads to the human capital formation thereby making a significant contribution to the economic growth of an economy (Barro, 2001; Gylfason and Zoega, 2003; Loening, 2004; Dickens *et al.* 2006). Education has many development benefits including more rapid growth and poverty reduction, as well as better health, reduced fertility, improved resilience to economic shocks, and greater civic participation (World Bank, 2011). Education opens up the mind of people, increases tolerance and acceptability, removes prejudice and discrimination, and also increases larger participation in developmental activities (Mishra and Mishra, 2015a).

Education increases the human capital inherent in the labour force, which in turn increases labour productivity and thus, transitional growth towards a higher equilibrium level of output (Mankiw, Romer, and Weil, 1992). Education increases the innovative capacity of the economy, and the new knowledge on new technologies, products and processes promotes growth (Lucas, 1988; Romer, 1990; Aghion and Howitt, 1998). Therefore, the paramount role of education in