PUBLIC EXPENDITURE ON EDUCATION AND ECONOMIC GROWTH: A STATE-LEVEL ANALYSIS IN INDIA

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Purpose of the Study: The aim of the study is to find the causal relationship between public expenditure on education and the economic growth of 28 states of India. The paper tries to provide an answer to the research question of whether or not there exists any causal relationship between public expenditure on education and economic growth in the states of India. It also aims to investigate whether public expenditure creates economic growth or economic growth is the cause of public expenditure.

Methodology: To examine the relationship between public expenditure on education and economic growth panel data of 28 states of India has been used in the study. To find the causal relation cointegration test has been applied. To examine the short-run and long-run dynamics between public expenditure on education and economic growth the study has adopted the Panel Vector Error Correction model.

Main Findings: The result of the study indicates that there exists a long-run relationship between public expenditure on education and economic growth. A unidirectional causality between Gross State Domestic Product (GSDP) and public expenditure on education is found in the long run. The meaning is that as growth takes place in the Indian states it pushes the government to increase its activities which stimulate an increase in public expenditure.

Applications of this study: This study can be useful for the formulation of government policy. It can also be useful for students and research scholars.

Novelty/Originality of this study: In this research work, a causal relationship is examined between economic growth and government expenditure especially in the education sector which is a major component of human resource development. All states are considered which are included in underdevelopment index and categorized as least developed; less developed and relatively developed states on the basis of some key socio-economic components.

References


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