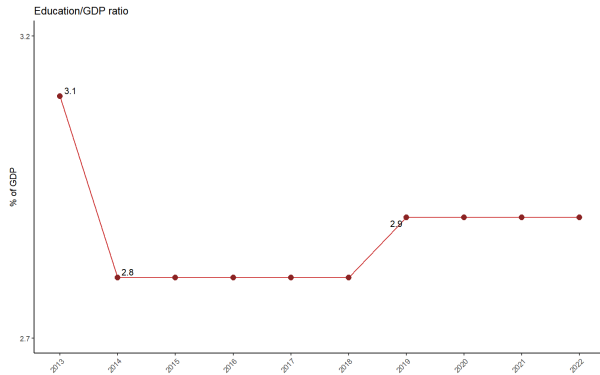


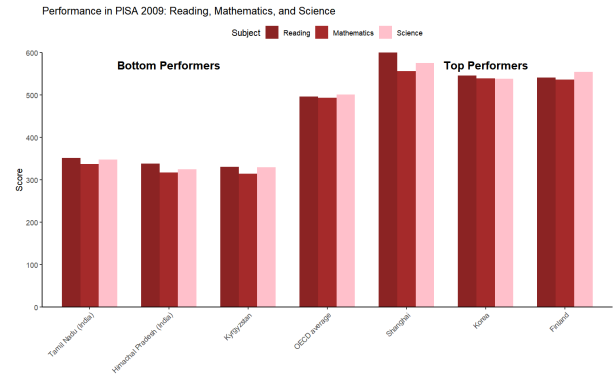
As early as possible

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In the 1968 National Education Policy, the government of India has committed to spend 6% of GDP on education as early as possible. For over 50 years, the Indian government has reiterated this goal, but remains far from achieving it. The education/GDP ratio has varied over 3,1% and 2,9% over the last years (see Figure 1a). The economics literature extensively supports that education plays a crucial role in economic development [1, 2, 3]. However, addressing learning poverty continues to pose a significant challenge for India [4]. The country performed poorly in 2009 PISA exam (see Figure 1b¹), the last time indian students participated.



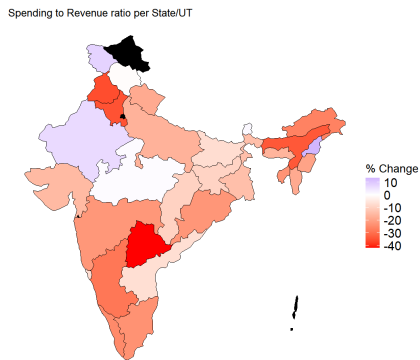
(a) Education expenditure to GDP ratio (2014-2022).



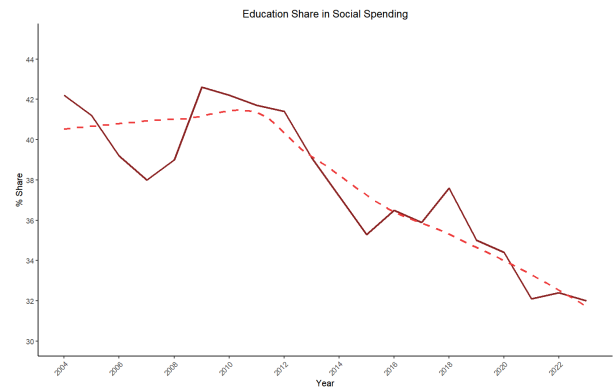
(b) PISA: Top and Bottom performers.

Figure 1: Education performance and expenditure.

Data suggests that education has not been a budgetary priority. Indian states bear approximately 80% of total public expenditure on education [7]. Over the last nine years, the share of education in most states and Union Territories budgets has decreased. Only three of the 28 states have increased their spending on education relative to revenue, and the share of education in social spending has also declined (see Figures 2a and 2b above²).



(a) Change (%) in education expenditure revenue ratio by States and Union Territories (2014-2023).



(b) Share of education in social spending (2004-2022).

Figure 2: Education spending by States and UFs and the share of education in social spending.

A World Bank study [9] estimates the efficient frontier of education spending for 130 countries, which determines the most efficient output for every level of expenditure. The estimated frontier is concave: for countries already investing heavily, the

¹Source: The Indian Express [5] and PISA data [6].

²Source: 1a, 2a, 2b are based on on "State Finances: a study of budgets" [8]. States with missing data are colored black.

return from an additional monetary unit is lower. But for countries that invest little in education, additional investments yield substantial returns.

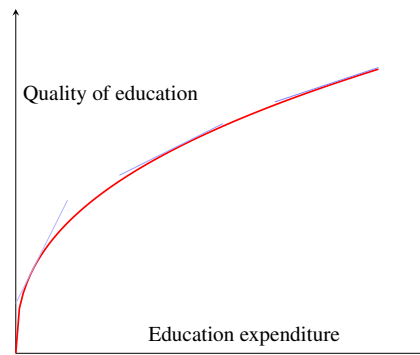


Figure 3: Efficiency frontier of education expenditure.

The latter is the case in India. The author finds that education spending was 87% efficient overall among 130 countries, with India achieving 91% efficiency despite being a developing nation, underscoring a positive outcome. Thus, spending more resources on education in a country with high learning poverty is likely efficient and may increase social welfare.

Since 2020, education has taken center stage in public discourse with the new education policy [10] proposed to replace the last National Education Policy from 1986. This policy includes restructuring school time, integrating children aged 3-6 into formal education, and modernizing the curriculum to meet the needs of the 21st century. These regulatory advancements are important and, since education expenditure is cost-efficient in India, they could be truly effective in combating poverty if paired with the pursuit of the goal that has been repeated over the last 50 years: the expansion of education spending as a proportion of GDP, as early as possible.

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