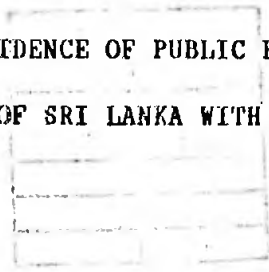


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**BENEFIT INCIDENCE OF PUBLIC EXPENDITURE ON EDUCATION:
A CASE STUDY OF SRI LANKA WITH SOME LESSONS FROM THAILAND**



by
M.L.Rupasinghe
3004040238

A thesis submitted in partial fulfilment
of the requirements for the degree of

Master of Economics
(English Language Program)
Faculty of Economics, Thammasat University
Bangkok, Thailand
May 1989

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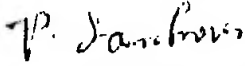
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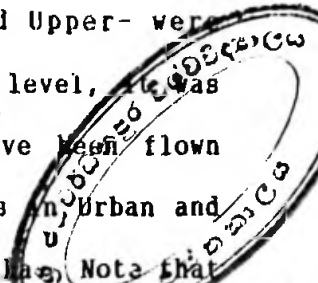
ABSTRACT

This study aims to measure empirically the benefit incidence of public expenditures on education in Sri Lanka and its three sectors (i.e. Urban, Rural, and estate). For the purpose of relative investigation, scope of the study was expanded by adding Thailand. Among other theoretical perspectives, "Benefit Flow" and "Accounting" approaches were used to identify and measure the benefits.

Findings from the investigations reveal that the distributional patterns of benefits were progressive or pro-poor in both Sri Lanka and Thailand in relative terms. Because the proportion of benefits to household income decreased as household income levels increased. But absolute benefit distribution patterns were regressive since benefit shares increased as income levels increase.

Disaggregated analysis for country and sectoral levels gives different distribution pattern of benefit. Distribution pattern of benefit from primary level expenditures in both countries was closed to the egalitarian type. Each household has similar chance to enroll at this level with little bias toward higher income classes in Sri Lanka. But this Biasness has improved at secondary level of education.

Two components of secondary level -lower and Upper- were identified with respect to Sri Lanka. At the Lower level, it was found that the lowest and highest benefit shares have been flown respectively to the poorest and richest income classes in Urban and Rural sectors as well as all country in case of Sri Lanka. Note that



the benefits at lower secondary level were insignificant in Estate sector due to trivial enrollments. Also, no enrollments in Upper secondary level were found in this sector.

In the Upper secondary level, the disparity of benefit distribution that was found at the Lower secondary level was aggravated. As far as Thailand is concerned, similar unequal distribution of benefits was found at secondary level. On the whole, it can be concluded that the relationship between benefits from educational expenditures and household income is positive as the level of education rise.

This conclusion further supported by the findings at the higher level of education in Thailand. But Sri Lankan experiences led to a different conclusions at this level. That is benefit distribution from higher educational expenditures favored poorer households than to the richers. However, these results are to be interpreted cautiously due to paucity of data and their reliability.

The change of inequality measured was by the Gini Concentration Ratio (GCR) from the income distribution before and after the benefit adjustments. It was found that ultimate distribution of benefits from public expenditures on education have alleviated the income inequality of Sri Lanka, its sectors, and Thailand in 1986.

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CHAPTER 1

INTRODUCTION

1.1 Statement of the Problem and Its Significance

Inequality of income distribution exists as one of the key features of the developing economies throughout the world. It gives a criteria to measure their underdevelopments.¹ Sri Lanka, a member of that category, has a considerable degree of inequality in income distribution which has been aggravated, especially, since 1977.² The poorest 40 percent of the households of the all country, for instance, received only 16 per cent of the total household income in 1985/86. The respected figures for 1981/82 was 21.4 per cent.³ A closer look on these countries data may give more unfavorable picture in its sectoral analysis.⁴

Growth with distributional equality is welcome by the recent

¹Malcolm Gillis et.al., Economic of Development, (New York: W.W.Norten & Company, 1983) pp.312-18.

²The previous government came into power in 1977 and held the office till the end of 1988 had free trade policies which were outward oriented. It could achieve relatively a higher growth rate of the economy in early period of the office. But in the subsequent periods it had to face the public unrests which may have backed by the political motives. However, the same political party could remain in the office after the Presidential and Parliamentary elections held on December 22,1988 and February 15,1989 respectively.

³Department of Census and Statistics, Labor Force and Socio-Economic Survey 1985/86, (Colombo: Department of Census and Statistics, 1987), p. 59.

⁴Three sectors of the country are Urban, Rural, and Estate. See page 5 for definitions of the sectors).

literature of the Economics.⁵ The inequality can be coped with the help of the fiscal policies. Both the tax and expenditure policies can alleviate the inequality of income distribution.

The education system of Sri Lanka was reformed in many aspects during the last decade. A series of reforms was introduced to general education by the well-known White Paper on Education. Also, the government explicitly encouraged the establishment of private educational institutions, especially, for the higher education.⁶ This was successful to some extent resulting the establishment of first private medical faculty in independent Sri Lanka. Such policies of the government may have made the aggressive attitudes of the general public since they may perceived that the educational facilities favor the richer people. One can justify such aggression on the historical perspectives of the country where the general public could enjoy free education, free health, free foods etc. for a long period.

Economic development is, and should be, the target of developing economies. This essentially requires the investment in human resources. Then the opportunities in the production may give higher share for the labor factor with simultaneous expansion of the

⁵National Economic and Social Development Board of Thailand, Outline of the Sixth National Economic and Social Development Plan (1987-1991), p.7. See also Gillis et.al. p.287.

⁶There were massive objection of the people, particularly, among the pupil population, over the educational reforms. Strikes and picketing campaigns were took place in many parts of the country. Undergraduates of the most of the universities joined to a prolonged strike, especially, to oppose to the functioning of the private medical college (i.e. Colombo North Private Medical College). However, the government decided to change the status of that college from private to public in early 1989.

production. Expenditures on education, in broader sense, can be considered as the investment in human resources. But Blaug found that the rate of return on education declined as the level of education goes up.⁷

The importance of public expenditure relative to country's national income and the significance of the educational expenditure among other expenditure items, as shown by the table 1.1, conceive us the worthiness of studying about that. The educational expenditure is the largest component of the Social Service expenditures which makes up 37 per cent of the total Social Service expenditure. Thus, it is needless to explain the significance of the impacts of educational expenditure on income distribution. Furthermore, total governmental revenue and expenditure were 42.58 and 25.44 per cents of the Gross National Product (Market Value) in 1986.⁸

1.2 Objective

Investigating the benefit incidence of government expenditure on education in Sri Lanka is the main objective of this study. In addition, the same incidence in Thailand is expected to be undertaken in order to enrich the comparative knowledge about the proposed benefit incidence.

⁷For details see Mark Blaug, The Rate of Return to Investment in Education in Thailand, (Bangkok: National Educational Council, 1971), pp.5-1 - 5-24.

⁸Central Bank of Sri Lanka, Review of the Economy, (Colombo: Central Bank of Sri Lanka, 1987), p.47

TABLE 1.1

FUNCTIONAL CLASSIFICATION OF GOVERNMENT EXPENDITURES OF SRI LANKA
(Million Rupee)

Item	Expenditures			Per cen -tages
	Current	Capital	Total	
General Public Services	8,680	1,217	9,897	16.53
Civil Administration	2,884	864	3,748	6.26
Defense	4,351	--- ^a	4,351	7.27
Public Order and Safety	1,445	353	1,798	3.00
Social Services	11,004	2,567	13,571	22.67
Education	3,775	1,252	5,027	8.40
Health	1,841	405	2,246	3.75
Welfare	5,254	15	5,269	8.80
Housing	13	575	588	0.98
Community Service	121	320	441	0.74
Economic Services	3,960	21,547	25,507	42.60
Agriculture and Irrigation	1,336	8,217 ^b	9,553	15.95
Fisheries	38	223	261	0.44
Manufacturing and Mining	443	793	1,236	2.06
Energy and Water Supply	50	2,476	2,526	4.22
Transportation and Communication	1,668	7,648	9,316	15.56
Trade and Commerce	152	445	597	1.00
Other	273	1,745	2,018	3.37
Other	10,324	574	10,898	18.20
of which interest	8,762	---	8,762	14.63
Total	33,967	25,905	59,862	100.00

Source: Central Bank of Sri Lanka, Review of the Economy - 1987,
(Colombo: Central Bank of Sri Lanka, 1988), pp.241-47.

Note: a. "----" defence and interest payments are, generally,
classified entirely under the category of current expenditure.

b. of which Mahaweli Project 5,952. (Mahaweli is the largest
irrigation project in Sri Lanka)

1.3 Scope

This study will focus on the benefit incidence of public
expenditure on education among the various income classes for the