

Education is
considered as an
investment
economics essay



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Education is considered as an investment in human capital. Human capital can be described as the knowledge, abilities and skills of an individual, acquired through education, training and experience, which help the latter to be more productive and thus improve his potential income earning. Ismael (1998), Becker (1964) and Mincer (1974) have emphasized on the fact that, by investing in human beings, we will gain from some forms of benefits in the future. However, Blankneau and Simpson (2004) find no clear evidence on the link between government spending on education and economic growth.

Human capital is one of the most important components of sustainable economic development of a country as illustrated by Lucas (1988) and Romer (1990) in their “ new growth” literature. The expanded neoclassical growth model developed by Mankiw, Romer and Weil (MRW) (1992) and the endogenous growth models developed by Lucas (1988), Romer (1990), Barro (1990) and others have only recently stressed on the importance of human capital in growth theories. Even though human capital incorporates health, experience, skills, education and other social factors, in this paper we will concentrate only on the role of education and its effects on the economic development of Mauritius. One problem that arises is when dealing with the measurement of human capital. In fact, there is no agreed definition of which proxy should be used to represent human capital. Generally, the average number of years of schooling has long been seen as a convenient proxy. For example, Mankiw et al. (1992) use secondary enrollment as proxy for education and Barro (1998) uses enrollment in different levels of education, i. e. primary, secondary and tertiary, and also enrollment by gender as

proxies. In our study we will be using the average number of years of different schooling levels as proxies for education. Petrakis and Stamatakis (2002) have stressed on the fact that each different level of education has different impact on growth. For example, they find that the effect of primary and secondary education on the economic growth of developing countries is more significant than that of tertiary education, and for developed countries it is the opposite that takes place.

Since it improves human capital, we could say that education does affect economic growth predominantly, but actually, the impact of education on the economic development is quite ambiguous. There were countless debates over the years by researchers over whether education has a positive, negative or no relationship at all with the economic growth of a country. Barro (1991) finds that education has a positive and significant impact on economic growth. He observes that any rise in enrollment rate, raises GDP too. De Meulmester and Rochet (1995) provide evidence that this relationship may not always be true. Devarajan et al. (1996) find that education has a negative impact on economic growth for some developing countries. They deduce that developing countries are not productive at the margin because these countries do not fairly allocate their public capital expenditure and this explains the opposing relationship between education and economic growth. The purpose of this paper is to determine the impact of education on the economic growth of Mauritius.

Empirical Evidence

Barro (1991) finds that education and economic growth are highly correlated. He uses enrollment rate as a proxy for education and per capita <https://assignbuster.com/education-is-considered-as-an-investment-economics-essay/>

GDP as a proxy for economic growth. Data are collected across more than 100 countries during the years 1960 to 1990 and Barro finds that each additional year of enrollment increases per capita GDP. Bils and Klenow (2000) also come across similar results in their research. They find that variation in schooling explains approximately one third of the variation in economic growth. Although Bils and Klenow (2000) provide evidence of the positive relationship between education and economic development, they also claim that more growth would result in more education and not the opposite, i. e. a reverse causation effect.

Akcabelen (2009) uses the ARDL approach to determine the short-run and long-run effects of different levels of education on Turkey's economic development. Secondary enrollment and tertiary enrollment are used as different proxies for education and this enables us to examine the impact of each level of education on the economic growth. Akcabelen concludes that there is positive correlation between all levels of education and the long-run economic development of Turkey.

Loening (2002) uses time-series data from 1951 to 2000 and applies the error-correction methodology to analyze the impact of education on the economic growth of Guatemala. He observes that output per worker increases by 0.16 percent following a 1 percent rise in the average years of schooling. So he agrees on the fact that education does have a positive impact on the overall economic development of the country.

Afzal et al. (2010) use time series data from 1970-2009 to analyze the relationship between education, physical capital, inflation, poverty and

economic growth in Pakistan. According to their findings, education and physical capital have both a positive and considerable effect on economic growth in the short-run as well as in the long-run. They also find that inflation slows down economic growth in the long-run and poverty has no effect at all on the economic development of Pakistan. Other researchers, such as Kakar et al. (2011), have used time series data for the time span 1980-2009 and apply the Error Correction Model (ECM) and come to the conclusion that education influences Pakistan's economic development only in the long-run. They also observe that the 'quality' of education is more important than the 'quantity' of education in achieving economic growth, so the government should increase its investment in education with the aim of enhancing the quality of education further.

Since Mauritius is part of Africa, it is also good to see the results of researches conducted in other African countries. Fonkeng and Ntembe (2009) use enrollment and GDP as proxies for education and economic development and they notice that education at higher level, i. e. at tertiary level, is positively correlated with economic growth of Cameroon. Musila and Belassi (2004) use government expenditure on education as proxy for education for the years 1965 to 1999. They apply the cointegration and the ECM methods and find that there is positive correlation between average worker's expenditure on education and the economic growth of Uganda. Ndiyo (2007) uses time series data from 1970 to 2000 on real education expenditure, real capital formation and GDP, and employs the VAR technique. Based on the results obtained after computations, Ndiyo (2007) demonstrates that education does not have a positive effect on the

economic development of Nigeria. He suggests that this result can be explained by various factors such as labor market distortions, redundancy, brain drain, industrial disputes and job discontinuities, and government failure etc.

Khorasgani (2008) analyses the impact of higher education on Iran's economic development for the period 1959 to 2005. The proxies used for human capital are education attainment and research expenditures.

Khorasgani (2008) also uses Cobb-Douglas production function together with the ARDL method to determine the short-run and long-run effects of higher education on the economic growth. The study demonstrates that real output increases by 0.314 percent in the long run and 0.198 percent in the short run following a 1 percent increase in higher education attainment. Hence, higher education has a positive and significant impact on the economic development of Iran.