ROLE OF EDUCATION IN ECONOMIC DEVELOPMENT

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INTRODUCTION

Education is every sense is one of the fundamental factors of development. No country can achieve sustainable economic development without substantial investment in human capital. Education enriches people’s understanding of themselves and world. It improves the quality of their lives and leads to broad social benefits to individuals and society. Education raises people’s productivity and creativity and promote entrepreneurship and technological advances. In addition it plays a very crucial role in securing economic and social progress and improving income distribution among people.

Education is an important form of investment in human capital development. Infact, it can be regarded as a high level or a specialized form of human capital contribution of which to economic development is very significant. It is rightly regarded as the “engine of development in the new world economy”.

CONTRIBUTION OF EDUCATION

• It helps in the rapid industrialization of economy by providing manpower with professional, technical and managerial skills.

• In present content of transformation of nations into knowledge economies and knowledge societies, education provides not just educated workers, but knowledge workers to the growth of the economy.

• It creates attitudes and makes possible attitudinal changes necessary for the socialization of the individuals and the modernization and overall transformation of the societies.
• Education helps, through teaching and research in the creation, absorption and dissemination of knowledge. Education also helps in the formation of a strong nation-state and at the same time helps in globalization.

• Lastly, Education allow people to enjoy an enhanced “life of mind” offering the wider society both cultural and political benefits.

EDUCATION AND ECONOMIC GROWTH

The contribution of education to economic growth is presumed to occur through a number of distinct yet interacting functions.

FIRST: It is believed that higher education contributes to economic growth the “production of knowledge” and that is largely takes place within the major universities through faculty members and their advanced students research and creative activities.

SECOND: It is generally acknowledged that colleges and universities contribute to national growth through the “diffusion of knowledge”, which may result from the cutoeual serve activies of their faculty, staff and students.

FINALLY: It is universally accepted that educational institutions contribute to the “transmission of knowledge” through extensive and varied teaching activities.

THE RELATIONSHIP OF EDUCATION TO ECONOMIC GROWTH EMPIRICAL EVIDENCE

MACROECONOMIC APPROACHES

Perhaps the simplest framework in which to look at the effects of education on economic growth is offered by the growth accounting framework. The basic model is that output is a function of factor inputs as described by Solow (1956). For the economy as a whole there are various ways to analyze the relationship but the most usual approach would be to suggest that grow in output \(Q\) is a function of the growth of inputs of labor \(L\) and capital \(K\) plus an unknown residual or error term \(R\). Thus the basic equation is:-

\[ \text{Q=f(L,K,R)} \]

The residual item is needed because investigations typically find that the growth in output is greater than the increase in labor and capital is the economy. Bassanini ve Scarpetta (2001) have investigated the role of human capital accumulation in explaining growth paths across 21 OECD countries over the 1971-98 period via panel data analyze. They provide human capital by the average number of years of formal education of working age population. The results point to a positive and significant impact of human capital accumulation to output per capita growth. The estimated long seen effect on output of one additional year of education (about 6%) is also consistent with microeconomic evidence on the private returns to schooling. They also found a significant growth effect from the accumulation of physical capital, and speed of convergence to the steady state output per capita growth path f around 15%/year. Wolf and Gittleman showed
that higher education enrollment rates are correlated with labor productivity growth. The number of scientists and engineers per capita is also associated with economic growth.

MICROECONOMIC APPROACHES

Conventionally the contribution of education to economic development is analyzed in terms of education-earnings relationships and more conveniently inform of rates of return. Rates of return are summary statistic of the relationship between lifetime earnings and costs of education. After adjusting for direct costs associated with the corresponding levels of educational achievement (for example, tuition and fees), and taking account of the fact that the value of a given sum of money will vary depending in the time at which it is spent or received, the (discounted net) earnings differentials can be expressed in classic “rates of return” terms.

Once both private and social rates of return are calculated, it is easy to calculate the difference in these rates, how much society benefits above and beyond the private return. It is this difference that provide and economic justification for govt. action.

Psacharopoulos (1973, 1985, 1994, 2004) provides an international survey of rates of return to education conventional rate of return analysis shows higher education in a less favourable light that it shows primary and secondary schooling. Psacharopoulos and Patrinos reviewed if country studies and found that social rates of return to investment in primary education are the highest (18.9%) followed by secondary education (13.1%). The returns to higher education are the least (10.8%). This pattern is more or less true in general with respect to private rates to returns also. Such evidence is extensively used to discourage public investment in higher education and to concentrate rather exclusive on primary education.

HOW HIGHER EDUCATION SUPPORTS DEVELOPMENT?

Statistical analysis, case study, and common observation all point to the fundamental importance of higher education to development. Education promotes the followings.

- **INCOME GROWTH**: the vitality of education is a fundamental and increasingly important determinant of a nation’s position in the world economy. It contribute to labor productivity, entrepreneurial energy, and quality of life, enhances social nobility; encourages political participation; strengthens civil society and promotes democratic governance.

- **CREATING NEW TECHNOLOGY**: In knowledge economy, higher education can help economies keep up or catch up with more technologically advanced societies. Knowledge of people can also improve the skills and understanding, while the greater confidence and know-how inculcated by advanced schooling may generate entrepreneurship with positive effects on job creation.

- **ENLIGHTENED LEADERS**: Education can give leaders the confidence, flexibility, breadth of knowledge, and technical skills needed to effectively confront the economic and political realities of the 21st century. It also generates cadres of well-trained teachers for all levels of the education system.
EXPANDING CHOICES: development is fundamentally concerned with expanding the choices people can make. As such an accessible education system—offering a wide range of quality options for study—is a major achievement, bolstering social mobility and helping the talented to fulfill their potential.

PUBLIC AND PRIVATE BENEFITS OF EDUCATION

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<th>Private</th>
<th>Public</th>
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<td>Better employment prospects, higher salaries, greater ability to save and invest.</td>
<td>Higher earnings for well educated individuals raise tax revenues for govt. and ease demands in state finances.</td>
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<tr>
<td>Better health, quality of life, Boosting life time earnings.</td>
<td>They also translate into greater consumption, which benefits produces.</td>
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THE CHANNELS OF EFFECT HIGHER EDUCATION TO ECONOMIC GROWTH
CONCLUSION

Individuals are interested in taking more schooling partly because they can earn more and get better jobs, on average, with more schooling. For many, more schooling can be a source of social mobility. Similarly, nation states and regions are interested in raising the average level of schooling in their population because they think that doing so will improve productivity, increase economic growth, raise the quality of jobs in the economy, and reduce poverty and inequality. Nations with more educated labor forces are characterized by higher output per worker but typically these nations also have more physical capital per worker.

The claim that educated workers adjust more effectively to rapid change in opportunities and technology implies that in today’s more rapidly changing and more competitive markets, the payoff to education should rise.

The positive economic payoff to individuals with more education in the form of higher earnings suggests that their economic value to the society is higher than those who have lower education. Economists estimate the payoff to more education relative to the cost of that education just like they would estimate the payoff to any investment. They calculate what the amount invested in education yields in higher earnings over the lifetime of those with more education. A positive rate of return to education suggests that investing in education contributes to growth. And those levels of education associated with higher rates of return should be the levels in which additional investment produces the greater contribution to economic growth.

REFERENCES


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