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**A STUDY ON THE RELATION BETWEEN
EDUCATION AND ECONOMIC DEVELOPMENT**

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A Study on the Relation between Education and Economic Development

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Abstract – Education, apart from producing human skills needed for the development of an economy is instrumental in making people aware of the available economic opportunities and social services that they can benefit from. It also helps in the satisfaction of other basic needs through creation of awareness on necessities of personal hygiene, household sanitation, clean water, nutritional requirements and primary health care. In sum, development affects both education and fulfillment of other basic needs and is affected by them, while education and other basic needs are also interrelated.

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INTRODUCTION

The perception of the process of development and its goals has undergone a considerable change during the last four decades. This may be owing to broadening of educational opportunities in the developing countries. This has led to a situation where more people contribute to and reap benefits from growth. The changed perception of development has brought a renewed interest in education, particularly elementary education not because of only equity arguments but also because education through schooling as a human right predated its recognition as a human capital. Therefore, most governments adopt a pro-elementary education strategy in their development plans.

At this stage, it may be necessary to evaluate the alternative approaches in the economics of educational planning. The consumption or welfare approach accept education as a social -service, while the investment approach embraces the economic ramification of educational provision in terms of monetary benefits. The exponents of the consumption orientation theory believe in the welfare of people. So they focus attention on the argument that financing of education should be based on 'pareto optimality'. According to this school of thought, the whole of primary and major part of secondary education is to be considered as welfare provision by the government.

But it is difficult to classify clearly the levels of education on the basis of consumption and investment approaches. In other words, one cannot probably say that public expenditure on any level of education is purely a consumption or investment expenditure. For instance; government subsidies on capital expenditure of school education may be considered as welfare expenditure. Because, these benefits are not pursued

deliberately by the consumption school of thought. But at the same time, these investments accrue monetary gains to the society when acquired talents are put to use. Hence, they can be considered as investment expenditure too.

The distinction between the consumption and investment aspects of educational expenditure has been a familiar area of interest since the times of Adam Smith. But the major concern in the economic value of education came into light only recently, after major part of growth of the USA economy was attributed to the increases in the stock of human capital. Suddenly, attention shifted from lack of capital resources in the developing countries towards the question of shortages of human skills as an explanation for unsatisfactory growth performance.

OBJECTIVES OF THE STUDY

The ultimate objective of development is the welfare of people which becomes manifest *in* the qualitative as well as quantitative changes that it brings about *in* the social, cultural and economic spheres of life. On the basis of this objective, an important performance test for development may imply the attainment of a decent standard of living. Moreover, in the developing countries, especially in India where more than 30 per cent of the population are poor, welfare of the masses depend largely on the levels of basic needs satisfaction *in* food and nutrition, water supply and sanitation, education, health, and housing.

HYPOTHESES

The study proposes to investigate the following hypotheses:

- i. There is a positive relationship between the levels of education and that of basic needs satisfaction.
- ii. There is a positive relationship between the levels of basic needs satisfaction and that of economic development.
- iii. There is a positive relationship between the levels of education and economic development.
- iv. There is a negative relationship between the levels of disparities in education and that of economic development.
- v. The male-female disparity is more pronounced than rural-urban disparity in the levels of education in explaining the variations in the level of economic development

OBJECTIVES OF THE STUDY

The study attempts to pursue the following:

- i. Analyze the nature of relationship between the indicators of economic development and those of basic needs fulfillment;
- ii. Examine the impact of education on the levels of basic needs satisfaction;
- iii. Explore and assess the relationship between levels of education and economic development; and
- iv. Finally, obtain as to how disparities (male-female and rural-urban) in the primary, middle and secondary levels of education may affect the levels of basic needs satisfaction and economic development in India.

REVIEW OF LITERATURE

The perspectives of development have been changing over the years in a rapid fashion to accommodate themselves to changing needs and perceptions of the people and the economies. Accordingly, the proposals for solving the developmental problems have been overwhelmingly large and varied in nature. The last three decades have witnessed a steady stream of proposed solutions from the dominant western schools of thought with many variants of Marxist analysis and prescriptions for the elimination of under development. The basic needs approach to development is one of such 'utopia' and of recent origin as a forum of logical reaction to the earlier development strategies.

The paradigm cal shift in the process of development has been recognized and studied mainly because of the failure of planned economic development to improve the living conditions of the poor. The process of simultaneous growth of income and continuance of

poverty has left the economists with no option but to think of another alternative strategy. The most immediate solution has emerged as the state takes a lead role in the form of intervention in alleviating poverty and sustaining development.

The growth-oriented approach emphasized the capital intensive modern sector demanding for a relatively high level skill from the average worker. It resulted in meager employment opportunities and a widening gap between the urban and rural areas. To counteract this effect, employment-oriented approach was followed with special emphasis on increasing employment in the rural and informal sectors. As employment in these sectors is difficult to measure, the strategy shifted to anti-poverty approach. This emphasized income or production per person, particularly the small holders, and public employment schemes for landless laborers. Though this approach contained some basic needs elements, because of its exclusive attention to income the supply of basic services was out of contention as an essential step by the government for poverty alleviation. As a result, satisfaction of basic human needs such as health, education, water, etc. could not be attained as it takes place outside the market system. This led to the emergence of basic needs approach with sole concentration on the direct supply of goods and services that would satisfy the needs of the poorest.

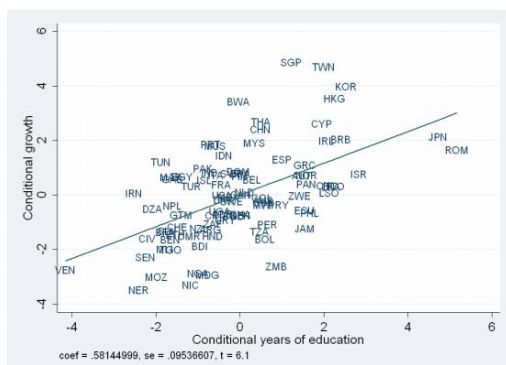
The research has shown that improved income distribution as a consequence of anti-poverty measures does not result in increased access to basic needs satisfaction. If higher growth and improved income distribution could not improve the level of basic needs satisfaction of the people, there is certainly a need to find out the reasons for this deficiency. And here, possibly two factors may need to be mentioned. They are deficiency in the supply of basic goods and services and lack of awareness on the part of the population to perceive these needs.

These factors mostly depend on the role of government intervention. Thus, including within itself the feature of public provision for the availability of basic needs to the specific target groups the basic needs approach has become an appealing strategy for the world community for improving the standards of living of the poor.

RESEARCH METHODOLOGY

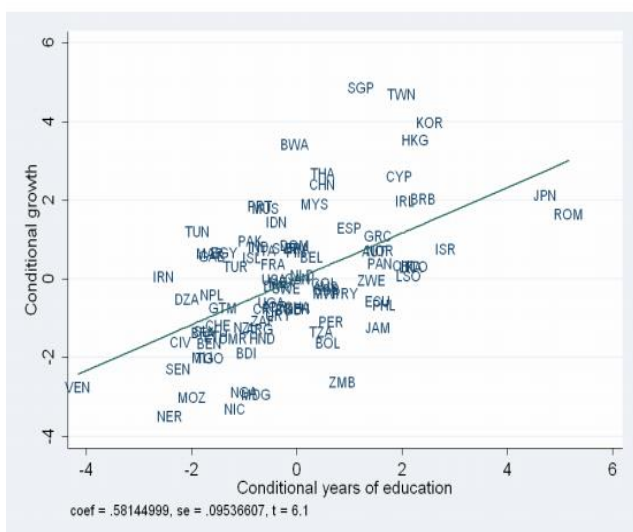
To provide a basic representation of the association between years of schooling and economic growth on the most recent version of available data, we use a slightly extended version³¹ of the education data by Cohen and Soto (2001), representing the average years of schooling of the population aged 15 to 64, together with data on real GDP per capita in 1960-2000 from the latest update (version 6.1) of the Penn World Tables by Heston, Summers, and Aten (2002). Figure plots the average annual rate of growth in GDP per capita over the 40-year period against years of

schooling at the beginning of the period for a sample of 92 countries. Both growth and education are expressed conditional on the initial level of output, to account for the significant conditional convergence effect. The regression results depicted by Figure implies that each year of schooling is statistically significantly associated with a long-run growth rate that is 0.58 percentage points higher. The positive association is substantially larger in the sample of non-OECD countries (at 0.56) than in the sample of OECD countries (at 0.26), which is in line with the pattern of larger returns to education in developing countries discussed above. However, after controlling for the influence of openness and the security of property rights, the association becomes substantially smaller and turns insignificant, and it is close to zero when the total fertility rate is controlled for. Thus, while there is a clear positive association between years of schooling and growth in the latest available data, it is also somewhat sensitive to model specifications.



Notes: Added-variable plot of a regression of the average annual rate of growth (in percent) of real GDP per capita in 1960-2000 on average years of schooling in 1960 and the initial level of real GDP per capita in 1960. Own calculations.

A considerable controversy has emerged in the literature about whether it is the of years of schooling (as would be predicted by several models of endogenous growth) or the in years of schooling (as would be predicted in basic neoclassical frameworks) which is the more important driver of economic growth. The early work on this issue was by Barro and Sala-i-Martin (1994) and discussed in Barro and Sala-i-Martin (2004). More recent work by Temple (1999) shows that in the latter case, an existing positive association was



DATA ANALYSIS

The research focuses particularly on proving that education can lead to economic growth. This study reviews the human capital from its quantitative (years of study) and qualitative (education quality) dimensions, the empirical panel data analysis being based on three double-log models developed and processed through random and fixed effects. The main explanatory variables comprise the GDP per capita, the physical capital, the average number of years of schooling (for all three levels, especially tertiary education), the quality of education measured through scores on skill tests, the degree of international openness, life expectancy and inflation rate. Our results highlight that education is extremely important in positively influencing economic growth. Within this framework, the results emphasize that within the European Union there is a strong positive influence of education on economic growth, expressed mainly through an increase in GDP per capita growth rate, especially when the human capital is expressed by qualitative variables, while the quantitative variable's importance is being greatly reduced.

CONCLUSION

There is enormous inequality in educational provisions among the regions in India and this has perpetuated disparities of all kinds in consistent with the socio-economic and cultural traditions of the society, which one can see among the states and districts, between rural and urban areas, males and females and among the SC, ST, backward and general populations. And, the allowance for persistent disparities in the levels of education has taken away the credit of whatever little educational development India could achieve in the past forty years.

With the conceptualization of the problem as above, the present research would focus at the regional variations in the levels of economic development in India as they correspond to the levels of basic needs satisfaction and education. So far as the relationships between education and levels of basic needs satisfaction, and between basic needs and development are concerned, the study would emphasize on the state level analysis because of the non-availability of data at the district level.

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