

## Chapter Eight

*Miemie Winn Byrd*

### **Education, Economic Growth, and Social Stability: Why the Three Are Inseparable**

#### **Executive Summary**

- A nation's human capital has been identified as a crucial factor for their progress and development. Education is the primary mechanism for escalating human resources and accumulating human capital. Therefore, public education is one of the most important inputs for nations' social and economic outcomes.
- In times of economic downturn and crisis, reducing public investment in education and infrastructure to cut government deficit can impede longer-term growth and development. The short-term success of lowering fiscal deficits and inflation can create a long-term trend of low growth and low employment as the result of insufficient education budgets and dilapidated education infrastructure.
- Disparities in education based on gender and socioeconomic status can create a significant drag on growth. Additionally, a disparity in education that aligns with social, political, and economic fault lines creates resentments leading to violence, conflict, and instability. Schools and education systems can serve as channels for the development of peaceful societies or exacerbate the situation, depending on the policy insertion.
- National education policies must be linked to security, social, and economic strategies for higher probability of success. Such linkage requires interagency cooperation within governments.
- At the regional level, APEC can play a crucial role in promoting and assisting member countries in the development

of sound education policies. APEC can create a platform on which best practices in education are shared and find ways to cooperate, develop, and spread a highly educated labor force across the Asia-Pacific region.

## Introduction

According to the 2011 UNESCO Education for All (EFA) Global Monitoring Report<sup>1</sup>, many low-income countries have made good efforts toward increasing their national spending on education since 1999. However, some regions and countries have continued to neglect education. Central, South, and West Asia invest the least in education. This does not bode well for growth and development in these regions. Economic growth is considered one of the key determinants for nations' development and progress. Nations' economic growth generally hinges on three factors: human capital, physical capital, and financial capital. Physical capital includes natural resources; financial capital is an investment needed to convert the physical capital into something useful and valuable; and the human capital is the human resources required to manage the entire process. Generally, the human capital is defined by the level of human resources that comprises the knowledge, skills, and capacity of a nation's population.

This chapter focuses on the human capital aspect of the triad, since human capital has been identified as a crucial factor for nations' economic growth and development. We have seen the primacy of human capital over physical capital in examples such as Myanmar and Nigeria, which are well endowed with natural resources but have been unable to progress, while Singapore and Taiwan, without many natural resources, have been able to rapidly reach newly industrialized economies (NIE) status.

The human capital is considered a vital element for nations' progress because, without it, the other two factors, physical and

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<sup>1</sup> The report can be found at <http://unesdoc.unesco.org/images/0019/001907/190743e.pdf>.

financial capitals, are ineffective. An increased number of skilled, educated, and productive citizens contribute to increased economic output for the private sector and improved governance in the public sector. The primary mechanism through which to increase human capital is education. Hence, public education is one of the most important inputs for nations' social and economic outcomes. Although this concept is profound, the idea is not a new one. Reverend Ohn Kin, in his 1956 memoir, stated, "What you put into the schools will be a controlling force in the lives of the people, and, conversely, in twenty to thirty years." Additionally, education yields indirect benefits to growth by stimulating physical capital investments and development and adoption of new technology.<sup>2</sup> Therefore, Harbison and Myers famously said that "education is both the seed and the flower of economic development."<sup>3</sup>

However, the governments in developing countries generally struggle with the twin challenges of providing universal access to education while improving the quality of education. Achieving universal access to education (education for all) is a daunting task for developing countries due to lack of funds, infrastructure, and human resources. In countries like India, generally 500 million children need to be educated at any given moment.

Despite many challenges, some of the countries, such as Singapore and South Korea, were able to make national education a priority. Their governments allocated resources toward the education of their populations. By elevating human resources, these countries were able to accumulate a high level of human capital, which fueled their attainment of NIE status. Less than fifty years after Singapore's independence, the country transformed its population from uneducated and unskilled, with very little English, into highly educated, highly skilled workers, with English language capability.

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<sup>2</sup> B. Siamese, and J. Van Renan, "The Return to Education: A Review of the Empirical Macro-Economic Literature" (London: The Institute for Fiscal Studies, 2008), 5.

<sup>3</sup> F. Harbison, and C. Myers, "Manpower and Education" (New York: McGraw-Hill, 1965), xi; Van Renan, "The Return to Education: A Review of the Empirical Macro-Economic Literature" (London: The Institute for Fiscal Studies, 2008), 5.

South Korea, another “Asian Tiger” known for rapid economic development in the past thirty years, literally had to “rise from the ashes” of World War II and the Korean War of the 1950s. However, South Korea was able to transform from poverty to riches and become an NIE country in a relatively short period. The rapid development of South Korea was attributed to its focus on human development through increased access to, and the improved quality of, education.<sup>4</sup>

These two countries’ experiences are additionally supported by an empirical study involving ninety-eight countries.<sup>5</sup> Evidence showed a positive relationship between school enrollment rates and economic growth. Early and continued investment in education seemed to be the crucial element in creating a satisfactory threshold level of human capital accumulation, which is critical for economic growth.<sup>6</sup>

### Impact of Economic Crisis

While more and better education seemed to be a prerequisite for successful economic and social development around the world, many governments’ (including the U.S.) responses to the recent global economic crisis seemed to have taken the countries in an opposite direction. The extreme fiscal austerity implemented by the governments, many of them under pressure from the IMF to reduce deficit, inevitably cut education budgets. Such austere measures undermined the countries’ ability to create increased levels of knowledge and skill to find alternative solutions in response to the crisis. Joseph Stiglitz, a leading economist and Noble Prize winner, warned that reduced public investment in education and

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<sup>4</sup> J. Lee, “Economic Growth and Human Development in the Republic of Korea, 1945–1992” (New York: United Nations Development Programme, 1997), 7.

<sup>5</sup> R. Barros, “Economic Growth in a Cross Section of Countries,” *Quarterly Journal of Economics* (1991) 407–444.

<sup>6</sup> D. Adam, “Education and National Development: Priorities, Policies, and Planning” (Hong Kong: Asian Development Bank, Comparative Education Research Centre, The University of Hong Kong, 2002), 22.

infrastructure to cut government deficit can impede longer-term growth and development. The short-term success of lowering fiscal deficits and inflation can create a long-term trend of low growth and low employment as the result of insufficient education budgets and dilapidated education infrastructure. According to a 2010 Asia-Pacific regional progress report published by Education International, many of the countries in the Asia-Pacific region have not reduced national expenditure on education in response to the economic crisis. This is definitely good news for the region and its long-term growth. However, the news is not as good for the United States.

As the American economy struggles to recover from the recession, of unusual depth and duration, American workers face persistent and historically high rates of unemployment. Although the U.S. economy is experiencing double-digit unemployment rates, 3 million jobs remain unfilled. Many employers have expressed their frustrations with a disconnect between the current education system and the types of skills and knowledge they need in the new labor force. This symptom points to an underlying structural problem of deteriorating quality in the U.S. education system. U.S. students' performances on standard math and science tests have declined.

Many have sounded an alarm. President Barack Obama admitted in his January 2012 State of the Union Address that "at a time when other countries are doubling down on education, tight budgets have forced States to lay off thousands of teachers. We know a good teacher can increase the lifetime income of a classroom by over \$250,000."<sup>7</sup> In March 2012, an Independent Task Force report on U.S. Education Reform and National Security warned that the current condition of the U.S. public school system "threatens the country's ability to thrive in a global economy and maintain its leadership role," and "educational failure puts the United States'

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<sup>7</sup> Barack Obama, State of the Union Address (2012), the full transcript can be found at: <http://www.usatoday.com/news/washington/story/2012-01-24/state-of-the-union-transcript/52780694/1>.

future economic prosperity, global position, and physical safety at risk.”<sup>8</sup> While the U.S. needs highly educated human resources to stay competitive in the increasingly globalized world, the developing countries need increasingly educated human resources for their growth and development to catch up with the rest of the world.

Despite the apparent relationships between education and national growth, most advocates in the education sector rarely discuss broader national economic development and growth in relation to education policies and funding. Those who are advocates of education must operate in a wider circle than a narrowly defined education sector to be effective.<sup>9</sup> Likewise, the economic development and growth policies must consider education policies and funding. These two policies are inextricably linked due to the reliance on human resources and human capital for economic growth and national development. Therefore, nations’ education policies must be able to link to labor market outcomes and other social development strategies. Such linkage requires interagency cooperation within governments.

### **Education and Social Equality**

There are two different perspectives on education: one perspective views education as human capital development for economic growth, and the other views it as a mechanism for social equality. In most societies, education is widely seen as one of the fundamental instruments for creating equal opportunity. However, in many developing and in some developed countries (including the U.S.), a persistent problem of unequal access to quality education exists. This disparity commonly appears in two categories: based on gender and socioeconomic status.

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<sup>8</sup> This task force and report were sponsored by the Council on Foreign Relations. The report can be obtained at: <http://www.cfr.org/unitedstates/us-education-reform-national-security/p27618>.

<sup>9</sup> R. Rowden, “Impact of IMF Policies on National Education Budgets and Teachers,” (Education International Research Institute, 2011), 3.

*Gender Disparities*

Increasingly globalized markets and intensified global competition require nations to be able to leverage all available human resources. Existing evidence shows that countries tolerating a high level of gender inequality in the labor force and in education are sacrificing their competitiveness and productivity.<sup>10</sup> When an economy dismisses 50 percent of its population, it is difficult to grow and compete with other economies that are optimally utilizing all of their human resources. Discriminatory practices in the labor market harm both national economic interests and human-development prospects. Therefore, gender inequality is more than a social injustice issue; it is detrimental to countries' economic growth.

A UNESCO 2011 Education for All Monitoring Report noted that formal discrimination seemed to be on the decline in most countries. However, informal practices in families, communities, and businesses remain persistent sources for gender inequality. While many of the countries are edging slowly toward achieving gender parity in primary school enrollment, a significant gap seems to continue to exist in secondary education. However, the improvement in the primary schools is encouraging, because additional evidence suggests that the investment in early childhood education yields higher labor market outcomes later. Studies showed that developing cognitive skills in childhood appeared to have a strong impact on learning and skills development later in life. Therefore, investment in early childhood education could lower later investments by making learning more efficient.

“Pervasive gender disparities in labor markets limit potential of education to unlock increases in productivity and equity.”<sup>11</sup> The labor markets and education can also be a reinforcing loop if informal social practices continue to discriminate based on gender. The social stereotyping of occupations for men and women inevitably

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<sup>10</sup> S. Klasen, “Does Gender Inequality Reduce Growth and Development? Evidence from Cross-Country Regression,” *World Bank Policy Research Report Working Paper No. 7* (2000), 10.

<sup>11</sup> UNESCO, Education for All Monitoring Report, (2011) 79.

leads to “pushing” women into jobs that generally pay less and require fewer skills. As such, low paying occupations discourage girls from pursuing additional education. Also traditional male/female roles in the family and allocation of household responsibilities can also serve as impediments to girls’ school attendance and attainment of further education.

Therefore, understanding the profile of the disparities is a crucial step in the development of the national education strategy to close the gap. Each country must conduct its own assessment of the barriers to gender parity. When formulating education policies to improve the parity, such policies should be linked and integrated into the broader economic growth strategies. Linking and integrating education policies with broader economic growth strategies will most likely increase the chance of success.

### *Socioeconomic Gaps*

To achieve education equality and quality for all, the governments are faced with three distinct but related challenges:

- 1) ensuring all children are able to attend school;
- 2) preparing the education system to teach children from highly marginalized backgrounds by ensuring enough qualified and motivated teachers with proper support structures; and
- 3) raising the overall average level of learning while providing additional resources for underperforming schools.<sup>12</sup>

Generally, the students from wealthy families are systematically sorted into high-quality schools, while the children from highly marginalized households end up in overcrowded, poorly resourced, government-sponsored schools. For example, a fifth-grade student in the Dhaka district of Bangladesh has a 47 percent chance of passing the Primary School Leaving Examination, compared with a 24 percent chance for a student from the Sylhet district, according to the Bangladesh Ministry of Primary and Mass Education 2010 report.

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<sup>12</sup> Ibid.



Such inequality significantly contributes to higher school dropout rates and the attainment of fewer skills for individuals from poor families and communities. This condition continues to commit the poor to the cycle of poverty. Studies have shown that basic literacy and cognitive skills improve individuals' economic outcomes.<sup>13</sup> In a circularly reinforcing fashion, poverty reduces the opportunity for education attainment and outcomes; the reduced opportunity and outcomes for education prolong an impoverished existence. Therefore, poverty and inequality engender inherent disadvantages. While education systems alone cannot eliminate social and economic disadvantages, they can either increase or decrease their impacts. A sustained long-term growth requires governments to ensure all segments of the population have equitable access to quality education. A properly resourced education system, with an adequate number of qualified teachers, can be a positive force toward creating an equitable society while accumulating an educated, skilled labor force for economic growth and good governance.

### **Education and Social Stability**

The linkage between the role of education and violent domestic conflict has not received much attention, because it is difficult to isolate the contribution of education relative to other driving factors that fuel instability. However, existing evidence has shown that “educational inequalities significantly heightened the risk of conflict.”<sup>14</sup> Inequality in educational opportunity is often concomitant with deeper social inequalities and injustices. Additionally, perceptions of unfairness related to education can be a powerful source of grievance.

Such disparities in social, economic, and political arenas also tend to overlap with ethnic, religious, and subregional fault lines. In Sri

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<sup>13</sup> T. Fasih, “Linking Education Policy to Labor Market Outcomes” (Washington: The International Bank for Reconstruction and Development/The World Bank, 2008), 3.

<sup>14</sup> *Ibid.*, 166.

Lanka, Tamil youth's frustrations regarding the high unemployment was reinforced by wider grievances, including discrimination in the university admission process. The separatists in Indonesia's Aceh province bitterly complained that the central Indonesian government and Javanese migrants unfairly deprived them of their livelihood and impaired the education of their children. This discontent was fueled by a perception of unfairness in sharing the economic benefits generated by the oil and gas industry in Aceh. Most of the jobs created by the province's oil and gas boom went to more educated Javanese migrants rather than to the local Aceh populace.<sup>15</sup>

In these heightened-risk environments, schools and education can serve as a channel for the development of a peaceful society, as well as exacerbate the situation, depending on the policy insertion. Education can help alleviate the risk by creating opportunities for the marginalized segment of the population to develop skills, obtain employment, and improve their social status. An additional year of schooling can increase an individual's income by 10 percent, on average.<sup>16</sup> An increased male enrollment from 30 percent to 81 percent in secondary schools seemed to reduce the probability of civil war by 67 percent.<sup>17</sup> According to the UNESCO 2011 Report<sup>18</sup>, an increased primary school enrollment, from 77 percent to universal provision, reduced the likelihood of civil war by nearly 50 percent.

However, schools can also serve as the catalysts for social division and make societies more prone to violence. There have been several instances of government policies using the language of the dominant group as the national language of instruction. In such cases, the minority groups viewed the schools as a conduit for cultural domination. In Nepal, the non-Nepali-speaking castes and ethnic minorities strongly resented the imposition of Nepali as the

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<sup>15</sup> Ibid.

<sup>16</sup> G. Psacharopoulos and H.A. Patrinos, "Returns to Investment in Education: A Further Update," *Education Economics* (2004), 12, 2: 111–134.

<sup>17</sup> C.L. Thyne, "ABC's, 123's, and the Golden Rule: The Pacifying Effect of Education on Civil War, 1980-1999," *International Studies Quarterly* (2006), 50, 4: 733–754.

<sup>18</sup> UNESCO, Education for All Monitoring Report, (2011) 163.

language of instruction in schools.<sup>19</sup> This strong resentment over the language fed into the broader set of grievances and drove the society into a civil war. Also, language has been at the heart of the Malay Muslims' separatist movement in southern Thailand. Many Malay Muslims viewed the use of Thai as the primary language of instruction in schools as the central government's oppression of their cultural identity. The public schools and schoolteachers became the prime targets for violent attacks in southern Thailand.

While the imposition of a national language as the primary instructional language creates strong resentment from the other groups, a segregated education system perpetuates separate identity. If peace settlements are based on keeping segregated education systems, school systems can reinforce attitudes that splinter communities and create conditions for a relapse. The lack of a centralized education system can contribute to wide variation in quality of instruction and learning. This condition could undermine prospects for achieving socioeconomic parity. Additionally, a rigid separation of schools and students does not allow the children to develop a sense of appreciation and respect for diversity within the community.

Therefore, the national and provincial policies surrounding public education must be well thought through, especially in post-conflict environments. Involvement of multiple stakeholders, ministries beyond education, relevant institutions, subject-matter experts, and participants from the local communities, is crucial in formulating proper education policies that will steer the nation toward growth and stability.

### **APEC and Regional Education**

APEC has been addressing the quality of higher education since 1992 through a subcommittee, the Education Network (EDNET), within the larger Human Resource Development Working Group (APEC HRD). This effort has been primarily to facilitate the port-

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<sup>19</sup> S. Gates and M.S. Murshed, "Spatial-Horizontal Inequality and the Maoist Insurgency in Nepal, *Review of Development Economics*, (2005), 9, 1: 121–134.

ability and compatibility of higher education diplomas among the APEC member economies. However, APEC should go beyond higher education, since existing studies indicate that investment in early childhood education yields higher labor market outcomes later.

In addition to EDNET, APEC also created the APEC Education Foundation (AEF), an organization established in 1995 to support and advance the cause of education and human resources development. The AEF promotes research and scholarship, educational cooperation, and community spirit in the Asia-Pacific region through grants and special initiatives. The Foundation works closely with the APEC Secretariat, the APEC Human Resources Development Working Group, the APEC Study Centers, and other partners of APEC. APEC members can leverage the AEF to create a platform on which best practices in education are shared and to find ways to cooperate, develop, and spread highly educated labor forces across the Asia-Pacific region.

### **Conclusion**

Based on the evidence, a strong relationship exists between nations' development, economic growth, stability, and the education system. However, in many countries, the education system remains disconnected from growth and security policies. A poor education system undermines national economic interest by weakening countries' skill bases and hurts the countries' abilities to attract financial capital and investment. In time of economic crisis, it is counterproductive to cut national education budgets. Such measures have negative long-term implications for nations' future growth and development. Moreover, lack of parity within the education system creates inefficiencies, resentment, and discontent within the marginalized segment of the population. Such conditions can and have led to reduced growth, instability, and violence. More than any other regional organization, APEC has the foundational cooperative mechanisms to assist its members in formulating effective education policies to increase human capital for economic growth and stability for the region.