

The Important of Education for Economic Growth

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Some countries with have rich natural resources like Indonesia frequently have a negative effect for their economy. Instead of becoming a grace of God, rich natural resources even become a curse for Indonesia people. Indonesia suffers from “Dutch Diseases” in how to manage their natural resources. We still face some problem such as poverty, law and political crisis, poor governance including corruption, poor infrastructure and how to maintain economic growth. With the rich natural resources, what should government do to develop Indonesia and maintain their economic growth?

The answer to solve this paradox is a reform in the education sector for develops human capital needed for maintaining sustainability of the growth. Robert Solow (1956) with Neo-Classical theory of growth believes that the increase of capital for economic growth is an unsustainable policy for economic growth because of diminishing return. According to Solow’s neo-classical theory, real Gross Domestic Product (GDP) per capita grows because technological change encourages an amount of saving and investment that makes capital per hours of labor grow. The neo-classical theory says that growth will discontinue except technology keep progressing. On the other hand, the increase of factor productions, such as capital investment, increasing population, and exploitation of natural resources, infrastructures, establish the law of diminishing return. This factor of productions may lead to rapid economic growth for just temporarily. However, it will not be sustained without technological advance as an output of education reforms policy (Romer, 1996).

In macro-economic theory, education investment or reforms affect the growth of labour productivity. If labour productivity increases, production possibilities expand. As a result, increases in labour productivity increase potential GDP because labour is more productive, and more labours are employed. Furthermore, Blankenau and Simpson (2004) suggest government to spend more public budget expenditure for education for human capital accumulation, whilst, it is difficult to measure the link between growth and human capital

investment statistically. Since government plays a role in financing formal schooling in most countries, there is a potential link between public education expenditures and growth.

There are two solutions to reform education sector for human capital investment. First of all, for education reforms, government needs to build infrastructure in the education sector such as school and university building. From the national income that government gain from the bomb of natural resources, Indonesia can invest it in building the education infrastructure. There are several advantages from this policy. Firstly, this policy can solve the unemployment problem and create new jobs, because the investment in infrastructure needs more labor-intensive policy with no specific technical skill background rather than invest in capital-intensive. Secondly, this policy can increase the GDP, the increase of government spending in education infrastructure effects the increase of income that causes the increase of GDP.

The second solution is increasing knowledge and skill of teachers and lecturers by giving the scholarship and sending them to study in advanced countries. The main reason for this policy is to transfer of knowledge and technology from advanced countries to Indonesia. Malaysia, for example, after the independent from British colonial, with the natural resources income they got, then the government invest by sending their teachers or lecturers to advanced countries. Nowadays, the teachers or lecturers are an essential engine for developing Malaysian human capital. Not only human capital, as a good result, Malaysian universities also become one of the main countries for foreign student to study abroad. However, this policy will require a long time for break-even point and how to measure it statistically. In the short run, people have not found a positive effect from this policy yet, but in long run, Malaysia has proven it.

References

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