Long-term effects of human capital on economic development in South Asia

J.P. Kaluarachchi - Department of Economics

This study involves a panel data regression analysis of all the countries in South Asia. The main objective of this research is to explore the long-term impact of human capital on economic development. Therefore, the author of this study decided to run all the regression models from 1980 to 2018 with a ten year time interval between the year considered for the dependent variable and the independent variables. Consequently, the study has been able to capture the effect of human capital on the development of the economy after ten years. However, the study was not confined in investigating only the long-term impact but also examined the short-term impact through estimations generated by the Random Effects GLS regression model. Quantile Regressions with Random Effects have been taken into account in exploring the long term effects. Apart from the key objectives, the study itself further focuses on examining the relationship between innovation and GDP Per Capita. Importantly, the contribution of education as a driver of human capital plays a controversial role in determining economic growth. Literacy Rate, School Enrollment and Pupil-Teacher ratio were taken into account in determining the Education index through the Principle Component Analysis. Number of Patent Applications, Gross Capital formation, Education and Health Indexes, Labor Force are the independent variables regressed upon GDP Per Capita, the dependent variable as a representation of Solow-Swan model. Briefly, only the countries who are performing better in economic development even if the independent variables remain unchanged, have been able to get the benefit of improving education. Other states should adjust their policy framework to gain benefits from education by improving the quality of education. Another surprising result of the study is the significant negative relationship between GDPPC and labor force participation. Jobless economic growth in South Asia and poor productivity were identified as key drivers for this result. Having analyzed the theoretical background, this study makes effective policy recommendations to overcome the challenges in enhancing economies through developing Human Capital.

Keywords: *economic development, education, human capital, quantile regression, random effect model*