

Economic benefits of education – Kosovo Perspective

Arber Reci, Muje Gjonbalaj

Abstract

The future of economy and society of a country depends largely from the education of the labour force and advancement of their knowledge. The process of individual education does not end with graduation, but is a continuous process, in the function of economic competitiveness. Economic development and welfare are closely connected to investment in education. Considering that education investment is a heavy burden on taxpayers, high costs of education have been an object of debate in governments in terms of efficiency and rate of return. In circumstances in which economic and social development of Kosovo thrives, education is a challenge, but it is also an opportunity for important and inclusive change.

Confident of the key role of education in economic development, the paper puts a special accent on economic benefits of an individual from higher education. Apart from this accent, a summary of empirical studies, which reflect facts and analysis of various countries, on economic benefits of education. Empirical analysis in many countries¹ have shown that the role of education is key in a global competition, where knowledge is the key to success of economy and social development. From this perspective, young and vital population is the most important resource of Kosovo, the relevance of which will be assessed by the knowledge and skills acquired in institutions of higher education, very demanded in the labour market, as an important factor of economic and social change in the country. The results so far have shown that the investment rate of 3.3% of Gross Domestic Product allocated to education (around 6,0% in developed countries) is insufficient for the

¹ Bassani, A.& Scarpetta, S., 2001. Links between Policy and Growth: Evidence from OECD Countries. OECD Economics Department working Papers. Paris. OECD.

Kosovo's economy to compete successfully with economies of other countries, in premises of an already global competition.

Keywords: *Economic benefits, education, investment effectiveness, Kosovo.*

Introduction

The relevance of education for economy and society is one of the most debated topics in political and academic fora throughout the world. Development strategies and economic policies in many countries are dominated by the vision that education investment is an important factor of development and competitiveness of their economies², and creation of new opportunities for the unemployed and the poor. Budgets allocated to education in the countries of OECD (*Organization for Economic Cooperation and Development*)³ have increased in the last decade, thereby reaching the rate of almost 6% of the GDP⁴. Being a heavy burden on the state budget, education investments have turned into permanent debates of governments in these countries, due to dilemmas on their effects and their rates of return. If one refers to *De la fuente & Ciccone, 2002 and European Competitiveness report, 2002*⁵, investments in education have a manifold return rate for the individual and society, in terms of increased productivity and strengthening of their economies. The higher education investment return rates are more favourable than any other return rate, and this type of investment is the best a family can make for its children. For some time Smith had engaged for an optimal balance between labour, education and development, where educated staff is distinct for its higher effectiveness in labour, and a larger flexibility in the labour market. For Peter Drucker⁶, knowledgeable people, rather than the amount of capital or natural resources, are a source of economic benefit and creation of new jobs.

According to a UNESCO⁷ report, education is qualified as a treasure, and in relation to a fable of La Fontaine, the tale of a peasant who at a deathbed asks from his children to not sell a part of land, because a large treasure is buried there. When he dies, children dig their soil in search of the treasure, and by the

² Lisbon Strategy. 2000. European Strategy of Employment. European Union 2003.

³ OECD Member States: Australia, Austria, Belgium, Canada, Chile, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Luxemburg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States. The Commission of European Communities takes part in the OECD workings.

⁴ Education at a Glance. OECD. 2007. Education at a Glance. OECD. 2002.

⁵ De la fuente & Ciccone "Human capital in a global and knowledge - based economy". 2002. European Competitiveness report. 2002.

⁶ Peter Drucker "The Age of discontinuity". 1992, Business and Economics

⁷ Delors, J, Nell'educazione un tesoro, 1999.

end, they understand that the hidden treasure is the knowledge, which requires large efforts, but it awards the individual and society high yields for a longer period. This is further proven by results and empirical analysis of developed countries (OECD, 2009), which are characterized by higher quality and larger number of graduates, and are known as countries of sustainable economic development. According to *Murphy & Welch*, *Audretsch et al.*, and *Bidwell & Friedki*⁸, the demand for qualified employees increases equally to country's development, allowing enterprises to be competitive, and people to have more choices in work and life. In this sense, *Maddison*⁹ claims that quality in education is different from country to country, and the expectation that the quality of services provided by labour force increases in parallel with the education quality is not unrealistic. This ratio between education and economy is much more complex, it is not easy to measure, and estimates may be erroneous at times. There are numerous examples reflecting economic benefits of education, as key factor to progress in developing countries, where the education level was poor¹⁰, such as China and India, or Singapore, Taiwan, Ireland, known for their high investment in education (around 7,0% of GDP) and a parallel rate of economic growth.

Less developed and lower income countries have less opportunity¹¹ to invest in education, while inadequate education of labour force has been the key impediment to the growth of economy and welfare in their countries. According to *Gemmelt* (1996)¹², primary education is the most important for developing and low-income countries, secondary education is important for middle-income countries, and higher education for rich countries.

2. Role of education in Kosovo's economy in the pre-reform period

Higher education in Kosovo dates since the early 1970-ies. The education system was adapted to the demands of time, social and political needs, as dictated by a planned and centrally managed economy, similar¹³ to other countries

⁸ *Murphy and Welch*, "Economic outcomes & Mental health" 1994. *Audretsch et al.*, 2003 and *Bidwell & Friedki*, 1998).

⁹ *Maddison*, A "The world economy in the 20th century"

¹⁰ In Africa, the part of basic and secondary educated population is around 50%, in the Latin America and Asia this quota goes to 85-90%. In Kosovo, this quota is around%.

¹¹ *Behrman & Roisenzweig*, Introduction to Research on demographic aspects, 2004. Londono, J, "Poverty, inequality and human development", 2001

¹² *Gemmelt*, N "Evaluating the impact of human capital stock and accumulation on economic growth". 1996.

¹³ *Alexej Lissitsa*. 2005. Agricultural Economics Education in Ukrainian Agricultural Universities: An Efficiency analysis Using Data Envelopment Analysis. (IAMO), Halle (Saale) Germany.
Csaki, C. 1999. Agricultural higher education in transforming Central and Eastern Europe. *Agricultural Economics* 21 (1999) 109-120.

of the former Socialist block. Considering that the organization itself, professional and academic structures were an outcome of a planned system and economic demands of such a system, the study programs were generalized, abstract and ineffective. For example, the study programs in economics were dominated by ideas of mass industry and manufacturing, by not investing much effort in quality and efficiency of products, environmental results and real consumer demand. Research work was stained by ideological influences, it was independent from the universities and was lead by state institutes part of large Industries, also managed by the state.

Isolation and political developments of the past period have largely resulted in a stalling development of education and scientific research work, which in turn reflected visibly in poor benefits to the Kosovo's economy. In these circumstances, the education system and economic development in Kosovo were not able to follow up on rapid and important developments in political, social and national fields of the country. In this sense, the poor GDP rates in general and per capita, the poor generation of new jobs, and therefore a high poverty rate, are also an outcome of a poor efficiency in the education system.

On the other hand, economic growth in developed countries is first and foremost an outcome of high quality of education, which proves the thesis that education is primordial to any economic development. It is obvious that developed countries and nations had a faster pace of economy and welfare also as a result of larger investment in education.

3. Role of education in the reforming economy of Kosovo

In the last decade, Kosovo's development is characterized by continuous efforts to reform the social system, and detachment from the old system of planned economy. Changes and difficulties in the economic and social environments have largely manifested in restructuring of the education system¹⁴. Despite a larger involvement of youth in higher education, effects in the economy are rather modest. Development of this resource¹⁵ and management of this energy will also determine the exploitation paces for any other resource in Kosovo. From this view, future economic and social developments necessitate a revision of the role of higher education, within a strategy of closer

Finnikov, T.: System of the Higher Education, Education Policy and Peer Education Project. UNDP., Kiev.

Nikitin V. 2001. Equal access to qualitative education. Education Policy and Peer Education Project. UNDP., Kiev.

¹⁴ Kosovo Education Development Strategy (2005-2015). 2004. Prishtina.

¹⁵ Gjonbalaj. M.(1997). Features of social-economic development of the population in Kosovo and several other countries (Veçoritë e zhvillimit socio ekonomik të popullsisë së Kosovës dhe të disa vendeve të tjera). Economics 3-4. Economic Institute, Pages 53-66. Prishtina

coordination with economy and business, and against numerous challenges ahead for Kosovo in the process of European integration¹⁶.

The economic development in Kosovo can best be fostered if young talents are retained and developed further, by eliminating factors pushing them towards migration. It is a national interest to keep experts and talents inside Kosovo, to make them leaders of important economic, political and social processes of the country. To do this, larger investment is required for education, for these individuals to feel hope and stay in their country.

4. Economic benefits of education

Education, and specifically higher education in Kosovo, must gain in pace and respond to market and economy demands. Higher education institutions, by specializing in provision of new knowledge, render themselves into generators of innovation and development useful to society and favourable to economic growth. The economic benefits of a qualitative education of labour force will manifest at the levels of local and national economy, and society as a whole. Empirical analysis and studies¹⁷ on labour force reflect a close related between education and economic growth. This fact must engage the Kosovo's Government and individuals to invest more in education. The connection between education and economic growth is rather complex.

Economic benefits from education are more direct and more effective in developed countries than in developing countries. This occurs due to the trends of migrating youth and experts, corruption and the poor legal infrastructure in developing countries. These are also the main reasons preventing the assessment of economic benefits of education in Kosovo. According to Sahin¹⁸, economic benefits of higher education are better reaped in less corrupt countries, countries with a smaller informal economy, and less migration of qualified labour force.

Benefits of education are not merely economic¹⁹, and do not pertain to an individual alone. The relevance of education is growing in parallel with integration and globalization processes. A well-educated man easily adapts to vari-

¹⁶ Kosovo Education Development Strategy (2005-2015). 2004. Prishtina. Pages 34-37.

¹⁷ Hoti, A & Adnett, N. (2004) Schooling in a High Unemployment Economy: The case of Kosovo; Staffordshire University Business School, Economics Division, Working Paper Nr.01. 2004.

Gjonbalaj, M. 2008. Importance of the labour market and employment policies in Kosovo (Rëndësia e Tregut të Punës dhe Politikat e Punësimit në Kosovë). Iliria University. Pages 111-128. Prishtina.

¹⁸ Ismail Sahin. 2006. Detailed review of Roger's diffusion of innovations theory and educational technology- related studies based on Roger's theory. The Turkish Online Journal of Educational Technology - TOJET April 2006 ISSN: 1303-6521 volume 5 Issue 2 Article 3.

¹⁹ Gjonbalaj, M.1999. Economic component of population, and its integrative role (Komponenta ekonomike e popullsisë dhe roli integrujes). Union of Pan-Albanian Economists, Tirana.

ous situations, new times and lifestyles, is well suited to create more incomes to himself and local and national budgets. According to Pencavel J, the difference²⁰ in incomes by qualifications in labour force has increased with time, and is more relevant to those graduated in higher education than those without a university degree. Individual graduates are more likely to find a working place, to get mobilized in various economic activities, and their families are less likely to fall under poverty lines. Research studies²¹ have shown that in an individual aspect, the education level is a key actor to obtaining and retaining a job, and the income level. The more qualified are more likely to be employed, self-employed and mobilized in foreign labour markets, more likely to return their investments and to increase the incomes of the country. In this sense, education expenditure must be viewed as investment furthering an economic growth and ensuring a high return rate to the individuals and society, and not as mere costs and burdens to the state budget.

In Kosovo and generally in developing countries, education of the labour force is key to any progress. It is important to push forward with reforms initiated, in capacity-building for the labour force, enabling it to transform the existing economic structure, which is dominated by basic manufacturing activities, to a developed productive and service economy, with diverse sectors and incomes. An increased quality in education will gradually bring about a better performance of businesses and economy of Kosovo, making it a real partner to developed economies.

It is obvious that developed countries enjoy a great advantage in terms of education quality and effectiveness, which are in close connection and coordination with the economy. These countries and their economies continue to expand and factor their influence, thanks to the high level of education and professionalism of these labour forces. The promise of developed European countries to being a leader of economic processes and developments at a global level is clearly visible in the Strategic Plan of the Council of Europe²² of 2000, and also confirmed again in 2002²³, thereby emphasizing that by 2015, the European economy should rise to a powerful global economy. This is aimed to be achieved by a substantial transformation of economy and an ambitious education program. In terms of commitment and relevance of education in the economic development of the country, one may be reminded of a speech by the US President, Barack Obama, addressed to the American nation, in a time of the

²⁰ Pencavel J. Higher Education Productivity and Earning: A Review. *Journal of Economic Education*.

²¹ Hoti, A & Adnett, N. (2004) *Schooling in a High Unemployment Economy: The case of Kosova*; Staffordshire University Business School, Economics Division, Working Paper Nr.01. 2004.

²² Krueger, A & Lindahl, M "Education for growth", 2001

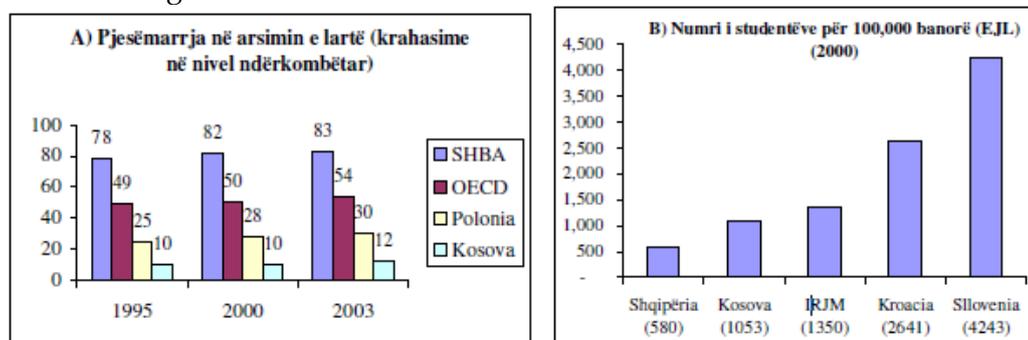
²³ Council of Europe, "Working Program on objectives of the education system", 2002

most recent global economic crisis, thereby quoting: “In the long run, the American economy is well off thanks to its basic university strength, invention and labour force dynamics”, or the estimates²⁴ that one additional school year increases the long term effects by 5%, and 2.5% of additional growth in the short term plan.

It would be difficult to expect any progress in the higher education of Kosovo, until there are no comprehensive studies on the number of students, education institutions, economy’s demands of qualified labour, etc. In Kosovo, the number of students enrolled each year in higher education is limited, due to the limited number of places and study programs. Studies are generally inefficient, when considering the lengthy study periods and the low number of graduates. The defyingly low percentage of higher education graduates in Kosovo, and the increasing demands for qualified people in the economy represent challenges for the government of the country for several years to come, in coping with increasing demands for education investment. The number of higher education graduates in Kosovo remains the lowest in the region, around 1000 students per 100.000 residents in 2003²⁵, in comparison to 1350 in Macedonia, 2641 in Croatia, 4243 in Slovenia, around 8000 in developed countries²⁶ (BE-27).

Meanwhile, in terms of involvement of the youth in studies, education rates continue to be small, with only 12% in 2003, at the time when such a rate was 30% in Poland, 54% in OECD countries, and 83% in the US.

Participation in higher education, in Kosovo and in several other countries, and the number of students in 100.000 population in SEE (2000) is presented in the following charts:



Source: CEPES/UNESCO, Bucharest, Rumania, 2002 (mimeo)

²⁴ Education at a Glance. OECD. 2010.

De la fuente & Ciccone “Human capital in a global and knowledge – based economy”, 2002

²⁵ Education system and economic development of Kosovo. “Promotion of Economic Development through Civil Society (Sistemi i arsimit dhe zhvillimi ekonomik i Kosovës ‘Promovimi i Zhvillimit Ekonomik Nëpërmjet Shoqërisë Civile). 2004. Riinvest Institute. Page 20.

²⁶ Eurostat (2010b); OECD (2009a), OECD (2010), UNESCO (2010);

According to empirical analysis in the OECD countries, after the completion²⁷ of secondary or higher education, unemployment in the age group of 20-24 years for an average of 8,3%, and 5,3% for the age group of 25-29 years. With graduation in higher education, unemployment in the age group of 25-29 years is reduced for 0.9%. University degrees expand the likelihood of finding a job. While in the majority of countries of the OECD, education and employment are generally sequential, while in others they may be parallel, the distinct occurrence of disproportion between education and employment has adversely affected the transition process in Kosovo, where the transfer from education to employment is a rather complex process, which does not depend only on the duration and quality of education, but also on general economic trends and reforms initiated and already taking a toll in the country.

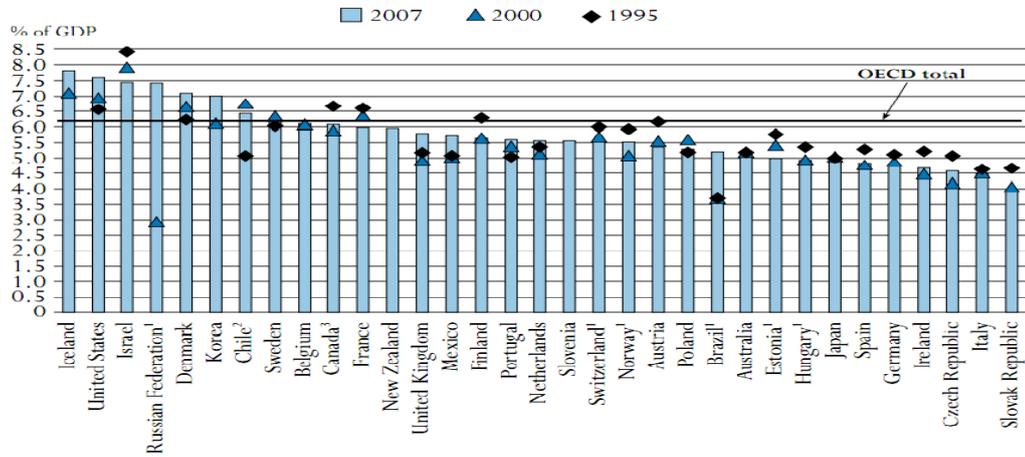
5. Investment in education and economic development

The rate of investment allocated to education and research depends on a number of inter-related factors, such as the demographic structure, the level of involvement of the generation in education, the level of incomes and priorities of the state in budget allocations. Education investment as GDP share show best the priority that a country assigns to education in terms of its distribution of resources. The economically developed countries may allocate more budget, and provide for more student enrolment. This is not possible for Kosovo, which is reflecting in a limited number of students, and the poor quality of services offered to them.

OECD countries invest considerable amounts of their national budgets in education, at an average rate of 6.2% of their GDP. In Kosovo, the rate is the half of that, only around 3.3%.

Expenditure on education institutions expressed in GDP share, for all education levels (1995, 2000, 2007), in OECD countries, is shown in the following chart:

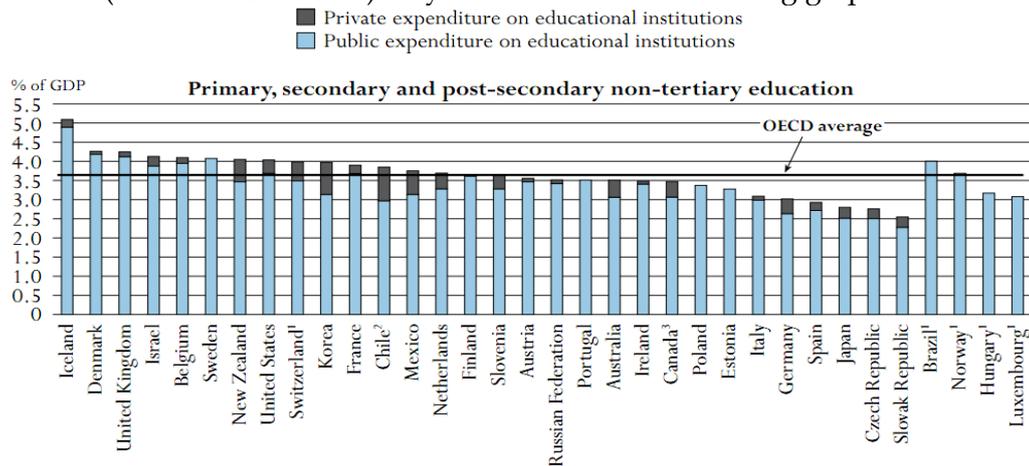
²⁷ Education at a Glance 2010; OECD Indicators; *How Successful Are Students in Moving From Education to Work*.



Source: Education at a Glance. OECD. 2007

Expenditure in higher education make for almost one third of total expenditure in OECD countries. Denmark, Iceland, USA and Israel are known as the countries investing the most in education (around 7% of GDP). In terms of financing, public investment dominate in the majority of countries, overshadowing the private investment. Despite this fact, private institutions and investment in higher education of Kosovo in the recent years have consolidated education in Kosovo, not only in quantity, in terms of numbers of enrolled, but most importantly in fostering competitiveness in conditions, study programs, etc.

Public and private expenditure made in education, expressed as GDP share, in 2007 (in OECD Countries) may be viewed in the following graphic:



The current trend in Europe is the application of education fees for higher education²⁸. The situation is still different in Scandinavian countries²⁹, where education costs are taken by the state. OECD countries in average spend twice more for higher education than they spend in primary and secondary education.

Conclusions

We can conclude that education is key to economic development of a country. Different countries assign different accents to education quality. Independently of the fact that economic benefits of education are considerable, education policies of the new Kosovo state have missed this approach for many years. Some progress has been achieved recently. Empirical analysis show that in developed countries, economic benefits of education are more distinct than those in developing countries, with higher rates of corruption, nepotism, migrating experts and talents. This disallows those investing in their education and obtaining higher education degrees to use their opportunities.

Knowing that economic benefits of education, and especially higher education, are considerable, and manifested by growing employability, self-employment and increased entrepreneurship, investments in education must be viewed as investment contributing to a more rapid development of the country.

Strengthening cooperation between the economy and universities is another challenge. The Government, experts of various areas and business representatives must work together in creating a functional education system, which would adapt to the market demands and economic development of the country. This will facilitate the transfer of individuals from education to employment. This process in Kosovo takes a long time, due to the difficult economic situation as inherited, length and quality of schooling. The high unemployment rate is further exacerbating the transfer from education to employment, thereby adversely affecting the transition processes in the country. The trend of the youth in Kosovo largely enrolling to studies every year is also a result of inability to find a job. The poor and disordered labour market in Kosovo affects directly the working conditions, the failure to observe the recruitment principles and competitiveness in values in the labour market. These circumstances in turn bring about the lack of respect for those employed, ultimately undermining the role of education in improvement of economic and social livelihood of the Kosovo population.

²⁸ Eurostat. 2009. 144.

²⁹ Bevc, M., Uršič, S. (2008): *Relations between funding, equity, and efficiency of higher education*; Education Economics; Vol. 16, No. 3, September, pp. 229-244.

It is important that the state, the policy-makers, understand clearly the role of investment in education, and economic, social and societal benefits they can bring. Modest benefits of the economy from education in Kosovo do not justify the policies of keeping low or even reducing the higher education expenditure in Kosovo. In the contrary, this situation should encourage the Government of Kosovo to increase financial resources and ensure efficient use thereof. Modest economic benefits of education are related to the manner of use of such investment. On the other hand, the difficulty in measuring economic benefits of education in Kosovo is related to the lack and quality of data.

In a time when employment prospects in Kosovo are minor, Kosovo will have to allocate considerable investments for several years to come to the incorporation of a larger number of potential students. The State of Kosovo must develop proper policies to employ the youth, but also to prepare and upskill the youth for the years to come, and for the challenges ahead in the lengthy process of European integration.

To work with commitment in streamlining study programs with economy's demands, to foster competition between public and private education, to increase funding in a way of stopping the "brain drain" of the country.

Literature

Alexej Lissitsa., 2005. Agricultural Economics Education in Ukrainian Agricultural Universities: An Efficiency analysis Using Data Envelopment Analysis. (IAMO). Halle (Saale) Germany.

Audretsch et al., 2003. Bidwell & Friedki., 1998.

Bassani, A.&Scarpetta, S., 2001. Links between Policy and Growth: Evidence from OECD Countries. OECD Economics Department Working Papers. Paris. OECD.

Bidwell & Friedkin "Education expectations". 1998

Behrman & Roisenzëing, Introduction to Research on demographic aspects. 2004.

Bevc, M., Uršič, S. (2008): *Relations between funding, equity, and efficiency of higher education*; Education Economics; Vol. 16, No. 3, September, pp. 229-244

Csaki, C., 1999. Agricultural higher education in transforming Central and Eastern Europe. Agricultural Economics 21 (1999) 109-120. Delors, J, *Nell'educazione un tesoro*.

De la fuente & Ciccone. 2002. "Human capital in a global and knowledge - based economy".

Strategic documents, such as the Lisbon Strategy (European Union, 2000).

European Competitiveness report. 2002,

Education at a Glance. OECD. 2007.

Education at a Glance. OECD. 2010

Education at a Glance. OECD. 2002

Eurostat. 2009

Finnikov, T.: System of the Higher Education, Education Policy and Peer Education Project. UNDP., Kiev.

Hoti, A & Adnett, N. (2004) *Schooling in a High Unemployment Economy: The case of Kosova*; Staffordshire University Business School, Economics Division, Working Paper Nr.01. 2004.

Gemmelt, N "Evaluating the impact of human capital stock and accumulation on economic growth" 1996.

Gjonbalaj. M.(1997). *Features of social-economic development of the population in Kosovo and several other countries (Veçoritë e zhvillimit socio ekonomik të popullsisë së Kosovës dhe të disa vendeve të tjera)*. Economy 3-4. Economic Institute. Prishtina.

Gjonbalaj, M.(1999): *Economic component of population, and its integrative role (Komponenta ekonomike e popullsisë dhe roli integrues)*. Union of Pan-Albanian Economists, Tirana.

Gjonbalaj, M(2008): *Importance of the labour market and employment policies in Kosovo (Rëndësia e Tregut të Punës dhe Politikat e Punësimit në Kosovë)*. Iliria University. Pages 111-128. Prishtina.

Ismail Sahin. 2006. *Detailed review of Roger's diffusion of innovations theory and educational technology- related studies based on Roger's theory*. The Turkish Online Journal of Educational Technology - TOJET April 2006 ISSN: 1303-6521 volume 5 Issue 2 Article 3

Institute for World Resources, *Global Tendency (Instituti për Burime Botërore, Tendenca Globale)*. 1998.

Londono, J, "Poverty, inequality and human development", 2001

Krueger, A & Lindahl, M "Education for growth", 2001

Council of Europe "Working Program on Objectives of Education System", 2002

Communication of the Commission for the European Council and Parliament: *Efforts to modernize University Agenda: Education, Research and Innovation*, COM (21006) 208, 10 June 2006

Murphy and Welch, "Economic outcomes & Mental health" 1994

Madisson, A "The world economy in the 20th century"

General expenditures of the Kosovo Government by functions 2006-2008.

Ministry of Economy and Finance, *Financial overviews 2000-2008*

Nikitin V. 2001. *Equal access to qualitative education*. Education Policy and Peer Education Project. UNDP., Kiev.

Peter Drucker "The Age of discontinuity". 1992, *Business and Economics*

Pencavel J. *Higher Education Productivity and Earning: A Review*. Journal of Economic Education

Kosovo Education Strategic Plan 2011-2016. August 2011. Republic of Kosovo.

OECD Report, 2001.

European Employment Strategy, European Union 2003, and OECD 1996.

Kosovo Education Development Strategy (2005-2015). 2004. Prishtina.

Education system and economic development of Kosovo (Part of Project "Promotion of Economic Development through Civil Society) 2004. Riinvest Institute.

Lisbon Strategy. 2000.