Relationship between education and economic growth

The Case of Albania

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Abstract

The purpose of this research is to examine the relationship between educational attainment and economic growth in Albania. This research analyses how educational opportunities contribute to Albania's economic growth via the use of empirical data. Additionally, it examines the relationship between education and economic development in Albania. Using general economic theory as a starting point, this study analyses some of the potential implications for Albanian economic and educational policy. By stimulating technological innovation and boosting capital and labor productivity, education expenditure increases the economy's revenue. Using statistical analysis, empirical research attempts to ascertain the true causal effect of educational and training quality on individual salaries, firm profitability, and the economy as a whole. The results suggest that education may be a critical factor in Albania's long-term economic growth, making it a critical component of the country's economic strategy. According to the study's results, the government and private sector should collaborate to improve education quality via public-private partnerships. The impact of education on economic development and its relationship is portrayed in this study since it should be a primary goal of policymakers.

Keywords: *Academic influence, educational settlements, Economic Growth.*

1. Introduction

Education is one of the most important social institutions in the world. It is critical and widely recognized as one of the most significant development processes in the world today. Consequently, educational attainment and economic success are inextricably connected. Education is often perceived to have a major impact on societal economic growth and long-term development. One of the most essential foundations of a successful and healthy society is education. Investing heavily in education allows a state to flourish in several ways, including economic development. Without a doubt, education entails more than simply studying and getting good grades (Albanian Academic Network, 2019).

Several studies on long-term growth in poor nations conducted by development analysts looked at the relationship between education and economic development. Individual and group production are important markers of human capital, according to the results mentioned above (Buhaljoti, 2016). In academic literature, human capital is often regarded as an essential indicator of individual and group productivity. According to the findings of a study, training programs may help individuals create more. Barrett and O'Connell discovered that training in a sample of Irish businesses had a positive impact on sales growth after conducting

research between 1993 and 1995 (Barrett and O'Connell, 2001). On the other hand, vocational training is unquestionably important in both countries in terms of increasing output and earnings. As previously stated, this has a positive impact on people's health. When it comes to impoverished countries like Albania, theoretical models indicate that education is the key to a country's economic growth, while real-world models demonstrate that it is not. Training has historically been measured by school years rather than by the knowledge and skills gained during those years, resulting in a gap (Buhaljoti, 2016). Education is often considered as one of the most essential factors in the development of emerging countries such as ours. Electricity, water, affordable healthcare, and modern infrastructure are all critical needs that must be addressed as soon as possible. The university system is critical for the development of a dynamic labor market, and its role in transforming theoretical knowledge into added value for companies is required to increase economic firms and the country's overall economic growth.

Secondary education investment boosts economic development and provides significant benefits above basic universal education alone (Albanian Academic Network, 2019). As a result, the United Nations Millennium Development Goals placed a strong emphasis on universal, but insufficient, primary education. Universal elementary education must be complemented by guaranteeing that a significant percentage of the population has finished secondary school. The IIASA is a non-profit organization devoted to the advancement of science and technology (International Institute for Applied Systems Analysis, 2008). By 2030, all girls and boys will have completed free, equitable, high-quality primary and secondary education that leads to substantial and successful learning outcomes' (SDGs) (European Commission, 2018). "To guarantee that all girls and boys have equal access to free, equitable, and high-quality primary and secondary education that results in relevant and effective learning outcomes."This demonstrates a better awareness of the importance of secondary education. Only universal elementary and secondary education are likely to boost human capital and raise significant groups of people out of poverty. Furthermore, postsecondary education for young people in more developed countries is critical to economic growth (Buhaljoti, 2016).

Foreign nations should offer more and better education since it empowers individuals and leads to better governance and less corruption throughout the globe. Increased national and global elementary and secondary education seems to be the most feasible path out of poverty and toward long-term prosperity. If policymakers wish to promote future prosperity, they should focus on outcomes rather than inputs (Woessmann, 2015).

This claim is supported by a large body of evidence. However, it is not always obvious how a person's education will affect their prospects in the future.

Economists have been studying the impact of skills on employment opportunities for decades, with a particular emphasis on wage inequalities between individuals with different levels of education and experience. Researchers examined the apparently simplistic relationship between wages, years of learning and years of experience by considering fundamental demographic characteristics such as sex and age in order to measure the return rate to education – the increase in wages for each additional year of learning – and the seemingly simple link between wages, years of education and years of education (UNESCO, 2012).

Several recent studies from across the globe show that educational returns in general are not just high, but that post-primary education returns are much higher than basic education returns. Despite this, national patterns differ significantly. The disparities in statistics may be attributed to a variety of reasons, including the fact that school years may not accurately reflect what young people are learning. Primary and secondary education must be finished in order to be regarded to have basic abilities. Furthermore, basic reading and arithmetic abilities will not enough to get a good job (UNESCO, 2012).

This study takes a country-specific approach to examining the relationship between education and growth by using co-integration methods to test the impact of education on economic development in Albania. The connection between education and economic success has been studied using a number of conceptual frameworks (European Commission, 2018). While the links may be assessed at many various levels, such as people, businesses, industries, or the whole economy, the macroeconomic connections between education and economic performance are the focus.

The rest of the paper is structured as follows. The theoretical reasons supporting the connection between education and the economy are presented in Section 2. Section 3 provides an overview of the statistical data, information, and structure. The results are presented in Section 4, and the conclusions are presented in Section 5.

Optimal relation between Education and Economy

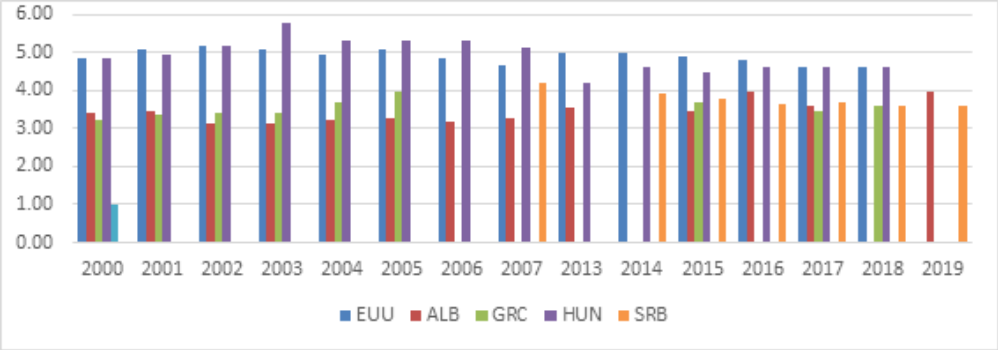
According to popular belief, education is a catalyst for economic and social growth. Following the "revolution of human capital" (Bowman and Anderson, 1963), considerable research has shown that investment in education provides enormous returns in terms of economic development and social progress during the past 60 years (Albanian Academic Network, 2019).

The Albanian government is concerned that the country's education system is less than capable of contributing to socioeconomic growth in current environment. Every year, a tiny number of children, particularly those from low-income families, begin school. Many children from rural areas do not attend school. When compared

to other nations, the quality of education is among the lowest, and the expense of education is likewise among the lowest (Buhaljoti, 2016). The study has two goals: first, to support the country's National Pre-University Education Strategy, and second, to ensure that the country meets European Union membership requirements.

It is also critical to create educational methods that will most effectively contribute to the nation's socioeconomic growth. To achieve the National Strategy for Pre-University Education, Albania needs raise education expenditure to 5% of GDP. According to the findings of this research, noncompliance costs the nation $35 million per year. Increased educational costs are not the solution to all of the system's problems. This research also suggests that investments should be prudent and cost-effective. Focus on lower education levels, especially pre-school, to break the cycle of exclusion and provide the greatest economic advantages. They must also make an effort to decrease inequality by motivating teachers and students, decentralizing the education system, delegating more decision-making and authority to schools, and using rigorous assessment and evaluation methods.

GRAPH I. Expenditure on education in relation to GDP



Source: World Development Indicators (2020)

Albania is no exception to this general tendency. Despite progress in Albania's education agenda, gaps remain in maintaining universal primary learning rates, improving education quality, increasing access to and improving the quality of pre-school education, and reducing disparities, particularly among children of ethnic minorities and children with disabilities.

In this paper, the main highlighted virtue is one the importance of education and economic development, with a particular focus on the connection between education and economic success. It also depicts the relationship between educational advancement and increase in individual and household wealth, as well as economic growth. Because there is a connection between educational

achievement and the quality of a nation's economic institutions, good quality education is important. This research emphasizes the need of global comparative studies, including comparative data on the nature and evolution of education, as well as how high-quality education affects economic growth and individual living standards. It assesses the significance of government efforts to enhance educational quality in Albania, as well as the relationship between educational quality and economic development.

Variables relating to the inter-relationship of academic and financial sectors

Albania has made considerable success in recent years in establishing multi-party democracy and an open market economy, transforming itself from one of Europe's poorest nations into a more competitive upper middle-class economy. Albania has undertaken major educational changes as part of this process, including the decentralization of school administration and the adoption of a competent curriculum. Therefore, all the major educational metrics have improved. For example, compulsory education has been extended in recent years, and student performance in worldwide surveys indicates a continuously increasing trend over several cycles. A significant percentage of Albanian students continue to drop out before acquiring fundamental skills. Furthermore, there are still substantial occurrences and results in education that impact equality, depending on race and geographical location. This has hampered many people's job and living opportunities, as well as slowed the country's growth. The findings of this study recommend that the school assessment and evaluation system be changed to promote more efficient learning and better performance for all students (Grant, 2017).

TABLE I. Variable of Educational Sector

Category	Indicators
Core	Educational system structure
	Length of each school cycle
	Enrollment ratios and absolute student numbers
	Out-of-school children
	Educational quality, learning in school
	Educational attainment, years of schooling
Efficiency	
	Costs
Fiscal	Unit cost per student/year, % GDP allocated to education
Private	Foregone earnings while in school, private education expenditure

	Benefits
Private	Extra earnings of the more educated relative to the less educated
Narrow social	Productivity differences and tax contributions between the more and the less educated
Wider social	Health, crime and civic effects of education
Equity	
Disparities	Gender, ethnic, regional
Distributive incidence	Who pays and who benefits from public education expenditure
For projections	Baseline and target budgetary allocations to education

Source: Grant, (2017)

The educational system's administration is concerning

Albania's education system will only flourish if the country's public administration's independence and openness are strengthened and extended. Albania has taken steps to address the polarization of appointment choices, such as holding open contests to propose directors to boards of directors. Political influence, however, is still anticipated to play a part in the selection of school administrators and personnel at China's most important educational institutions (INSTAT, 2018). Albania must guarantee that appointments are made on merit and that the most qualified individuals with proven skills and experience in these posts are chosen and maintained via this process (Grant, 2017).

Unemployment and a lack of skilled workers

Albania has a high unemployment rate, particularly among young people. In 2018, the country's unemployment rate was 13.9 percent, which was similar to Serbia's (13.5 percent). The percentage was lower in Bosnia and Herzegovina (20.8 percent), Montenegro (15.5 percent), and North Macedonia (21.6 percent), but much higher than in the EU (6.8 percent) and the OECD (5.3 percent). The World Bank (2019) provides an example of a formal unemployment rate among those aged 15 to 24 was 31.0 percent, considerably higher than the 17.1 percent and 11.9 percent EU and OECD averages. It should also be mentioned that a sizable number of young people are either jobless or engaged in school or study. In

2015, 32.8 percent of Albanian young people were unemployed or underemployed, the highest percentage among Western Balkan nations and much higher than the European Union (12.0 percent) and OCDE norms 14.2 percent (Rova, 2016).

Recent advancements in international studies have improved Albania's global competitiveness, which is now somewhat higher than that of the other Western Balkan countries. However, many Albanians continue to labor in low-wage, low-productivity jobs, particularly in agriculture (European Commission, 2018). Low-skilled workers are more likely than the general population to be impoverished or displaced from the labor force. Investments in VET, as well as human capital development in general, were called for in Albania's National Employment and Skills Strategy to ensure Albanians have the skills they need to find work (Ministry of Social Welfare and Youth, 2014). Addressing skills shortages is especially essential as Albania seeks to join the EU, as it seeks to attract foreign direct investment (The World Bank, 2019).

Financial decisions are made by the Financial Authority

The Ministry oversees national general development, coordination, and administration of education, as well as playing a significant role in policy formulation. In addition to primary and secondary education, the Department is in charge of higher education, youth affairs, sports development, and scientific research. Training and vocational education programs are overseen by the Ministry of Economics and Finance. Pupils enrolled in vocational education institutes are not included in the limited number of students enrolled in this research.

Education financing is critical, and it cannot be overstated

As a result, education spending has reached an all-time low. While Albania's education spending as a proportion of GDP (4.0 percent) was comparable to that of Serbia (3.9 percent), it was lower than the OECD (5.4 percent) and EU (5.1 percent) averages (UIS, 2020). Albania spent more on education than Serbia (8.7%) and the OECD nations combined in 2016. (13.2 percent). 13.6 percent of the people The EU spends less on government expenditure (13.2 percent) than the US (11.8 percent). Albania's spending rates have steadily risen over the past two decades, culminating in 2016, the latest year for which international data are readily available (INSTAT, 2018).

Albania's spending on primary education (1.8 percent of GDP), although higher than that of the OECD (1.4 percent of GDP) and the EU (1.3 percent of GDP) (Grant, 2017), is similar to that of its Western Balkan neighbors. Albania spends the same amount on secondary education (1.8% of GDP) as its Western

Balkan neighbors. As a result, financing for other aspects of the educational system is severely hampered. Albania, for example, spends around 0.4% of GDP on secondary education, considerably below the OECD and EU averages (2.0 percent of GDP each) (Rova, 2016).

Spending is inadequate

According to PISA statistics, more spending is related with better student outcomes in countries where per-student spending is less than a certain threshold; higher spending is associated with poorer student outcomes in countries where per-student spending exceeds that threshold. When comparing Albania's expenditures per secondary student to those of other European and OECD countries, data show that the country maintains low spending and poor performance. Despite the potential for better resource use, Albania will have significant difficulties in enhancing learning outcomes without significantly increasing expenditure.

2. Empirical Methodology

In Albania's case, the first step is to conduct econometric research to determine if there is a long-term connection between education and economic growth. The research takes a more eclectic approach to the assessment and possible economic and educational implications of Albania's performance in different sectors of education, based on econometric results. To construct a model to examine the relationship between educational indicators and economic growth in Albania, endogenous growth theory was required. A similar method was used to examine the relationship between human capital and economic growth in earlier research in Portugal and Chile. These studies provided the data that was utilised to build the model. It should enable scholars who prefer technical terms to investigate long-term structural relationships between Albania's total factor production, educational quantity, and educational quality. (INSTAT, 2018).

Based on a log-linear specification of the combined development of total factor productivity (a proxy for technical advancement), educational quantity (the average number of years spent in school), and educational quality, the following structural connections are developed (government expenditure on education as a percentage of GDP) (INSTAT, 2018):

$$Ft = ßo + ß1Et\ quantity + ß2Et\text{-}x\ quality + ut \qquad (1)$$

The logarithm of total factor productivity (TFP) in year t is denoted by Ft; Etquantity is the logarithm of the average number of years of schooling (a proxy for

educational quantity) in year t; and Et-x is the logarithm of government spending on education as a percentage of GDP (another proxy for educational quality) in year t is denoted by Et-x. Finally, ut is a random perturbation term that represents the time-frequency parity elasticities of educational quantity and quality in terms of quantity and quality respectively (TFP). The dependent variable in this model is total factor productivity (TFP), not gross domestic product (GDP), as previously stated.

This model may be used to determine whether the endogenous growth hypothesis predicts a connection between educational metrics and economic development, which is significant since TFP is a key driver of economic growth. Essentially, the notion is that a better educated workforce (both in terms of amount and quality of education finished) helps substantially to the development of more advanced technology.

Because of this technical progress, total factor productivity will rise, making a significant contribution to long-term economic growth and development. To put it another way, output rises in lockstep with the level of education of the workforce (Etquantity). In the long term, improving the general quality of education should result in a more productive workforce. Both the amount and quality of schooling are expected to be positively linked to output, with ß1 >0 showing positive connections and ß2 >0 indicating positive correlations, according to theory. Total factor productivity (TFP) has a number of significant problems that must be addressed while being chosen as the most accessible proxy for technical advancement. TFP should be seen as a reflection of unmeasured sources of growth until these unmeasured sources of growth, such as improvements in labor quality, advantages from better resource allocation, and scale gains, are quantified in some way. Increases in labor quality, advantages from better resource allocation, and gains from economies of scale, for example, should all be included when evaluating total factor productivity (TFP). In this case, educational activities may not be the sole factor affecting TFP. Due to the difficulty in identifying these other important variables, the empirical model is restricted to educational indicators, which serve as proxies for human capital and, as a result, the potential for innovation and the adoption of new and better technologies. Education, according to the authors, combines quantitative and qualitative components to provide a more "all-encompassing" assessment of education as a potential economic development engine.

Findings

Educational development is now widely recognized as a driver of both economic and social progress. Albanians are concerned that the country's educational system

is incapable of contributing to the country's socioeconomic development in this context (Council of Ministers of Albania, 2019):

- There are about 15,000 unschooled children, many of whom work as children.
- There are almost 64,000 illiterate adults.
- Children do much inferior academically than their contemporaries.
- Basic facilities are missing in half of all schools.
- One out of every four instructors is ineligible to teach.
- PISA scores for secondary school pupils are degraded when compared outer nations, such as those in the OECD.
- Education spending amounts for just 2.9 percent of GDP in the United States, compared to 4.5 percent in the European Union.

Evidence from similar studies in other countries was examined, and it was concluded that the cost of a failing educational system is significant.

Albania was ranked 70th out of 124 nations in the World Economic Forum's Human Capital Index in 2016, with 68.231 points out of a potential 100, far behind all other regional countries. This statistic measures how well children do in school and at work (Council of Ministers of Albania, 2019). In the United States, youth unemployment is anticipated to reach 33 percent, with a projected rate of 17.4 percent. This means that Albania must address issues that jeopardize the quality of education needed for the development of labor-force skills, especially among young people.

TABLE II. Sources of funding comparison between Albania and other European States

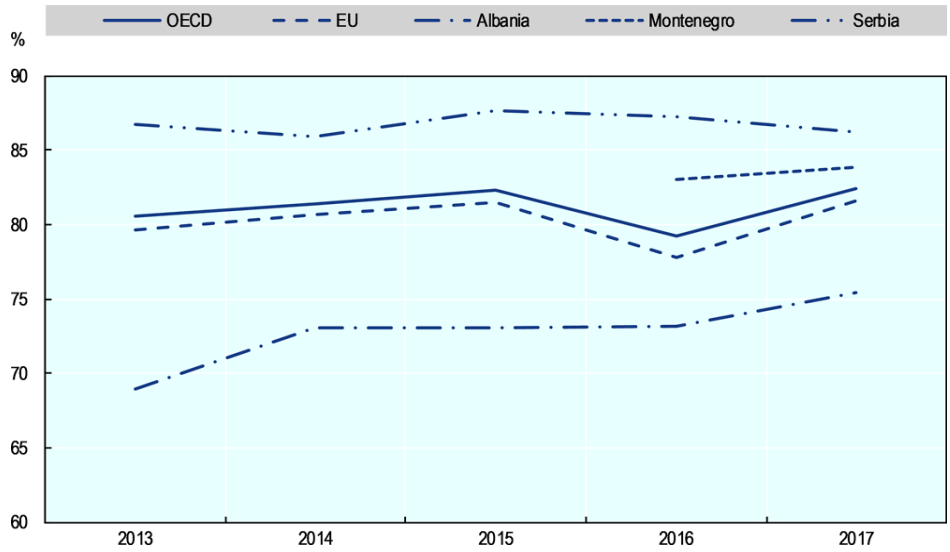
Source of funds	Albania	EU average
Public	2.9	4.5
Private	0.9	0.5
All	3.8	5.0

Source: INSTAT (2018)

Inadequate education financing is one of the most important variables influencing sector output and presenting a major challenge to the country's educational institutions. Albanian educational financing is centralized at all levels of education, including primary, secondary, and higher education. Albania's education system is supported by 3.1 percent of GDP from both public and private sources. This is much lower than the regional and OECD norms of about 6.3 percent. According to recent trends, the education sector is getting less financial resources. Education spending fell from 11.3 percent of overall budgetary expenditures in 2005 to 10.4

percent in 2013 and 9.5 percent in 2015. Education spending has dropped from 11.3 percent of overall budgetary expenditures in 2005 to 10.4 percent in 2013 and 9.5 percent in 2015. Albania likewise spends much less per student on elementary education (US$ 570) than the OECD average of US$ 7,974, while having a somewhat lower per capita GDP (US$ 20,000) (Council of Ministers of Albania, 2019).

GRAPH II. Comparative analysis of different states according to OECD



Source: OECD (2018)

While conforming to Albania's territorial reform, all multiple levels of education need adjustments in physical infrastructure, learning quality, didactic techniques, curriculum, and teacher capacity, which are not being met by adequate funding and are experiencing a decrease in financial support. Concerns have been raised regarding access, inclusion, inequality, and the educational system's general efficacy because of present levels of educational spending. According to the World Bank, access to primary (ages 6-10) and especially pre-primary (ages 3-5) education has steadily risen in recent years, as shown by net enrollment rates of 96 percent and 81 percent in 2014, respectively, compared to 90 percent and 58 percent in 2008. On the other hand, access inequalities based on family income still persist today. According to PISA findings, the performance difference between urban and rural pupils is much wider than in other nations, and children who attend private schools outperform those who attend public schools. Albania's efforts to undertake significant structural reforms are aimed at promoting fair development,

boosting economic productivity and competitiveness while also strengthening governance and delivering better public services. Improved regional linkages and access to regional and global markets, as well as increased exports and market diversity, may all help to faster growth. The Albanian government has created a comprehensive reform plan that covers, among other things, macroeconomic and financial sustainability, financial industry stability, energy reform, social services and incapacity reform, and territorial devolution.

TABLE III. Social Stratification of different countries

Country	Social stratification index
Albania	0.55
Latvia	0.47
Montenegro	0.40
Estonia	0.45
Croatia	0.46
Serbia	0.46

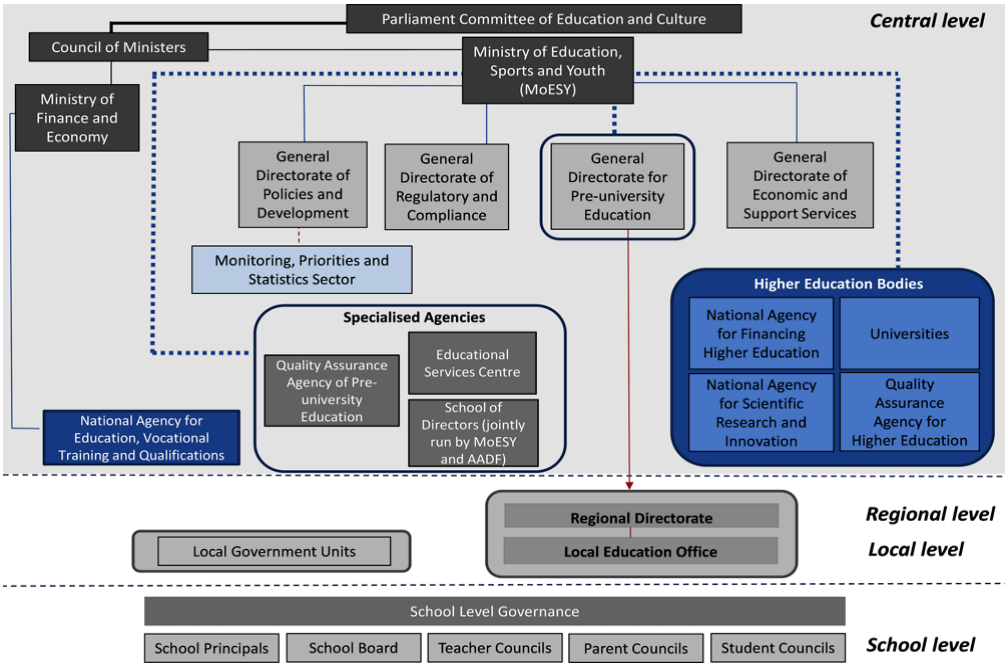
Source: INSTAT (2018)

Discussion and Conclusion

According to the results of an empirical study, a country's economic development is heavily reliant on its ability to invest in human resource education. Albania and other countries seeking rapid and steady economic growth should priorities this sector as part of their objectives. In addition to government spending on education and training, private sector investment in education and training has a major effect on productivity, which is often used interchangeably with improving competitiveness and national growth. If we accept the Schumpeterian axiom that schools transform theoretical knowledge into value for companies (and thus the entire market), we must develop policies that aim not only to improve education, as measured by the average number of years they spend in school, but also the quality of their training before universities (and, consequently, for the entire economy). If Albania wants to grow quickly and sustainably, the government must raise the amount of money set up in the national budget for education. It is critical to priorities the development of highly skilled human resources in both pre-university and university courses. This not only boosts local company productivity,

but also helps to attract substantial foreign investment in the long term (European Commission, 2018). Cooperation bridges between businesses operating in a certain area and professional schools or community colleges are also needed to guarantee that the knowledge acquired in school is similar to the information required by the post-graduation labor market.

FIGURE I. Proper Mechanism of educational sector operation



Source: Albanian Academic Network (2019)

The aim of this study, according to experts, was to investigate whether there is a long-term connection between education and economic development in Albania. Albania is no exception to a growing body of data connecting education and economic development through a technical parameter that is approximately equivalent to the total output factor. The results of the research also suggest that education may be a significant strategic issue in terms of economic policy, as demonstrated by the findings. As a consequence, there has been much discussion over whether the major issue areas have gotten enough attention. This perspective is supported by international data from a World Bank study that indicate that education quality, not the number of schools, has the greatest effect on economic development. These findings stand in stark contrast to Albania's educational history, which has prioritized increasing enrolment above improving educational quality in order to achieve academic success. Although Albania has made considerable

success in raising the average number of years of education among its workers, its slow growth in overall factor productivity may help explain, at least partly, why the country's overall productivity factor has remained so low. Government efforts such as expanding the number of years of education via higher education liberalization may be utilized to address this imbalance, since the proportion of GDP spent on education drops as the number of student increases.

Limitations

This article excludes the effect of pandemic covid 19 in education and economic growth, due to the uncertainties of this time span. Covid 19 changed and reshaped the whole economic and social system all over the world. Hence, including last two-year time span, would lead to a skewness of the data distribution. Also, since Albania, same as most countries in the world experienced recession during this period, the results would lack robustness and significance.

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