

The Role of Human Capital Investment on Pro-poor Economic Growth in Developing Countries

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Poverty reduction is one of the most important goals of development efforts, which can be accomplished through economic growth and/or income redistribution. Poverty and educational deprivation are closely linked : the lack of education is one of the main causes of material impoverishment, and poor people who have not received an education often pass on their poverty to the next generation – intergenerational transmission of poverty. In order to address this problem, the purpose of this thesis is to examine the effect of the human capital investment on economic growth and poverty reduction. In this study, human capital is measured by primary, secondary and tertiary schooling enrollment rate and government expenditure on education. The fixed-effect method was used as an econometric technique in the empirical analysis. This study uses secondary data obtained from different sources, including World Development Indicators (WDI), Worldwide Governance Indicators (WGI), UNESCO Institute for Statistics, and Standardized World Income Inequality Database (SWIID). The data used are balanced panel data of 104 developing countries for the period 2001-2015.

The models estimated and applied in this study are based on Mankiw-Romer-Weil (1992), Kakwani and Pernia (2000). The poverty incidence equation by Kakwani & Pernia (2000) is extended in order to incorporate human capital components and attest its contribution to poverty reduction. This study emphasizes the dual effect of human capital : being the *macro effect* – economic growth effect of human capital and *micro effect* – personal income increase effect of education (which is the effect on poverty incidence).

The major findings show that when measured by primary school enrollment rate and public expenditure on education, human capital has a negative and significant effect on poverty headcount ratio. On the other hand, when measured by secondary and tertiary school enrollment rate and government expenditure on education human capital has a positive impact on GDP per capita in developing countries.

The policy implications from these findings suggest that these countries should increase their public expenditure on primary education especially if the objective is sustained poverty reduction. Moreover, if the policy's objective is to achieve progressive economic growth the investment should be directed toward secondary and tertiary education. However, a relevant policy package has to take into account specific country circumstances and initial conditions.

Key words : Human Capital, Pro-poor Economic Growth, Government Expenditure, School Enrollment Rate, Poverty Reduction, Developing Countries