The Knowledge Capital of Nations: Education and the Economics of Growth (CESifo Book Series)

Eric A. Hanushek, Ludger Woessmann
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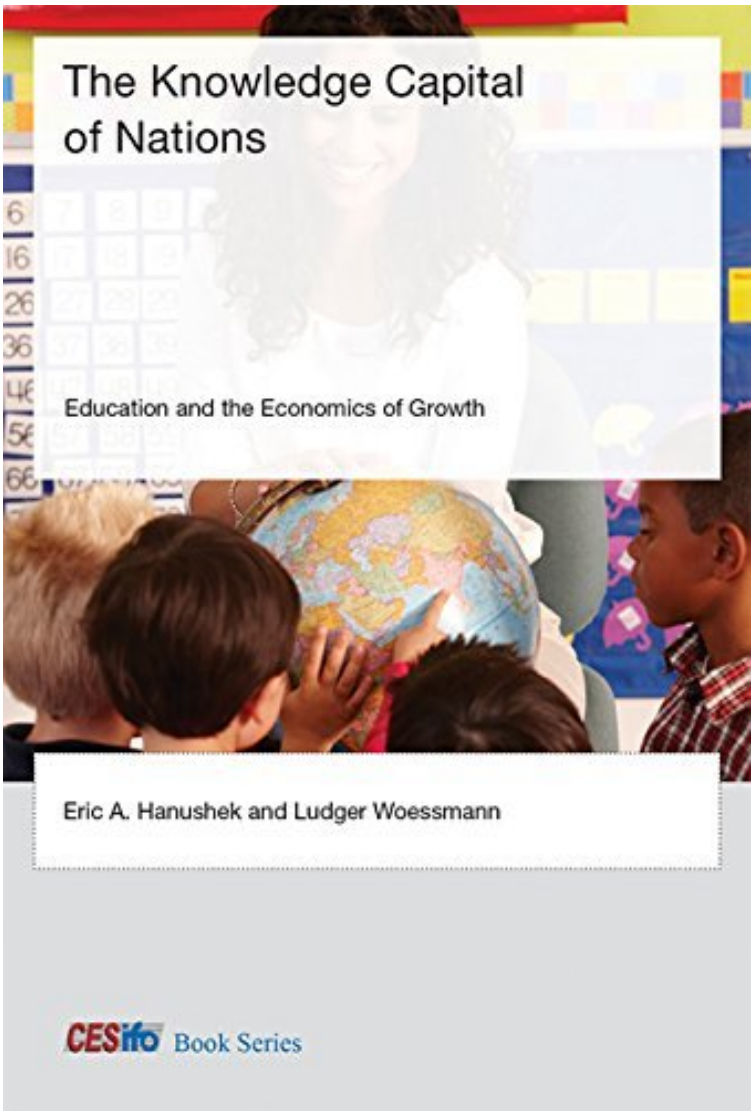

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Eric A. Hanushek, Ludger Woessmann : The Knowledge Capital of Nations: Education and the Economics of Growth (CESifo Book Series) before purchasing it in order to gage whether or not it would be worth my time, and all praised The Knowledge Capital of Nations: Education and the Economics of Growth (CESifo Book Series):

3 of 3 people found the following review helpful. Adding Pupil Seat Time Is A Poor Contributor to Economic Performance, Building Knowledge Is a Far-Better InvestmentBy Loyd EskildsonErick Hanushek is a leader in education research, starting with a focus on class-size, then moving to 'value-added' assessments of teachers, and now

onto the link between more schooling and a nation's economic growth. Getting to a credible answer took the authors nine years longer than originally planned. The good news is that their book is well worth the longer-than-expected wait. Their finding - despite the obvious need for education for workers to be productive at work, having pupils spend more time in school is not a good way to boost a nation's economy.Latin America (LA), the Middle East, and North Africa (MENA) post 1960 provide easily illustrations. At that time, all three areas had higher schooling levels than East Asian nations. Today, however, East Asia have moved far ahead of LA and MENA, while MENA has also moved ahead of LA. Clearly, our notion of the link between average schooling levels and economic progress is incomplete.However, that doesn't mean schooling is irrelevant to economic growth. When they instead looked at comparative pupil achievement, the authors found a strong relationship with economic growth. And best of all, the power of compounding means that seemingly small differences in annual pupil achievement growth (eg. 4% for East Asia, vs. less than 2 % for Latin America) offer major differences in long-term economic growth. Thus, the one standard deviation improvement in test scores (OECD average student level) is associated with an average annual growth rate in GDP/capita two percentage points higher over the 40 years studied is associated with major economic improvement over that time period.Therefore, knowing that China has eg. twice the learning of Venezuela with about the same number of years of schooling, makes China's 1980 - 'economic miracle' easily foretold (in retrospect).2 of 2 people found the following review helpful. This is human capital theory at its best. Human capital theory views knowledgeBy Hans G. DespainThe book is a summary and synthesis of decades of work by two of the leading economists studying the economics of education and economic growth. They have made invaluable contributions. This is human capital theory at its best.Human capital theory views knowledge, personal skill enhancement, and improvements in other social abilities as a form investment. Importantly, this ldquo;investmentrdquo; has two broad benefits. First, human capital development benefit individuals, for example in the form of higher wages (better health, civic engagement etc.); second, human capital development benefits the nation in the form of increased productivity, higher GDP, and economic growth.Hanushek and Woessman are primarily concerned with the impact of education, as human capital enhancing institutions, on the economic growth of nation.Nearly all previous work on the relationship between education and economic growth, has measured education attainment as ldquo;years in school.rdquo; Years-in-school is at best an indirect measure of human capital enhancement. Hanushek and Woessman contend that it is not so much the years in school that matter, as it is the ldquo;qualityrdquo; of education received. What their work has focused on is to attempt a measure of the quality education based on international assessment tests in mathematics and science. This measure is not precise, but it does offer a window into the amount of knowledge students are obtaining while in school, hence, the term ldquo;knowledge capitalrdquo; (in the title of the book and throughout all their work).Knowledge capital then is a subset of human capital more generally. Nonetheless, the subset of knowledge capital accounts for a significant amount of growth rates for nations in recent history, and for growth rates for individual states within the US. In short, quality of education and the knowledge obtained while in school matters significantly for predicting economic growth and development.A greater qualitatively educated population increases productivity, can be expected to lead to higher rates of invention, and allow for a more rapid introduction of new technologies.Currently, the US lands about in the middle of countries participating in international tests. Hanushek and Woessman calculate that raising the test scores by one-quarter standard deviation, or if you donrsquo;t like the statistical language, it would be a move from the middle of the back to the top quarter of test performance would increase US growth rates by 0.5 percent, This is a remarkable result.In short, improvements in the quality of education and school outcomes lead to added GDP that dramatically change the future prosperity of countries, both developed nations and developing nations. High growth follows from high skills; high skills follow from high quality education.The policy recommendations are broad and not specific. This is primarily due to the fact they base their policy insights on the statistical support they can generate, statistics do not offer specifics.Thus, they contend increased spending on inputs is typically not effective. For example, requiring more years of education for teachers, more teachers for smaller classrooms, improvement in school facilities, all offer rather low benefits. They underscore that they are not saying these things donrsquo;t matter, but that they are not the most urgent policy recommendations.They contend that what matter more, and is relatively inexpensive, is decentralized or autonomous decision making for local schools. This works well in developed countries with well-developed human capital educational systems already in place. A more centralized school system is better for developing nations.They urge for more attention to be given to incentives for school systems to improve academic achievement. These incentives may vary dramatically depending on the characteristics of the economy and school system. Their data supports increasing school choice, direct rewards to teachers for performance, and an expansion of early childhood education. They offer qualified support for ldquo;trackingrdquo; and vocational education.Above all else they urge for an improvement in teaching quality. Again, no specifics how to achieve this, but they do say in previous articles (but not in the book) that in the US, by raising the worst 5 ndash; 8 % of teachers to the level of ldquo;averagerdquo; would raise the quality of education by a quarter standard deviation. Replacing the bottom 7 ndash; 12 % performing teachers with average teachers would raise US education to number one.I am quite convinced by the argument that knowledge capital can benefit growth. I am less convinced that their policy recommendations are fully supported by their econometrics.Two

critical comments I would like to make:First their notion of increasing quality of teaching to increase knowledge capital, leading in turn to massive returns on GDP growth radically depends on well-functioning labor markets. If the labor market do not accommodate the increase in knowledge capital, the effect on GDP will not be as impressive. If an increase in knowledge capital simply leads to massive underemployment there will be no economic impact, and political tensions are likely to arise. It is possible given the degree of capital concentration, underutilization of capital, underemployment, and inequality in the US (and in many developed nations throughout the world) the labor markets are not likely to successfully accommodate the increase in knowledge capital for the GDP and growth results projected by Hanushek and Woessmann.Second, the notion of education being primarily about increasing Human Capital skills may be, and in my estimation very much is, too narrow a view of education, learning and being human. I suspect that their defense of early education and the importance of primary education may to some degree incorporate this critical comment. Nonetheless, they never say as much explicitly. Education is not simply about Human Capital development and a nationrsquo;s economic competitiveness.

In this book Eric Hanushek and Ludger Woessmann make a simple, central claim, developed with rigorous theoretical and empirical support: knowledge is the key to a country's development. Of course, every country acknowledges the importance of developing human capital, but Hanushek and Woessmann argue that message has become distorted, with politicians and researchers concentrating not on valued skills but on proxies for them. The common focus is on school attainment, although time in school provides a very misleading picture of how skills enter into development. Hanushek and Woessmann contend that the cognitive skills of the population -- which they term the "knowledge capital" of a nation -- are essential to long-run prosperity. Hanushek and Woessmann subject their hypotheses about the relationship between cognitive skills (as consistently measured by international student assessments) and economic growth to a series of tests, including alternate specifications, different subsets of countries, and econometric analysis of causal interpretations. They find that their main results are remarkably robust, and equally applicable to developing and developed countries. They demonstrate, for example, that the "Latin American growth puzzle" and the "East Asian miracle" can be explained by these regions' knowledge capital. Turning to the policy implications of their argument, they call for an education system that develops effective accountability, promotes choice and competition, and provides direct rewards for good performance.

Knowledge is the foundation of economic prosperity. Sensible as it sounds, this idea has been sidelined recently by studies that find measures of educational attainment to be poor predictors of economic growth and by explanations that focus on the quality of legal and political institutions instead. This book redresses the balance, powerfully demonstrating that conventional measures of schooling miss a big part of the picture. It places learning and cognitive skills at the front and center of the policy agenda -- for developed and developing nations alike. (Dani Rodrik, Albert O. Hirschman Professor, Institute for Advanced Study, and author of The Globalization Paradox)Attempts to put human capital as the fount of the huge differences in prosperity across nations have a mixed record. This thought-provoking book makes a strong argument that knowledge capital, which incorporates the crucial quality dimension of human capital, could be at the root of much of the variation we observe around the globe. (Daron Acemoglu, Elizabeth and James Killian Professor of Economics, MIT)That Hanushek and Woessmann are world experts on researching with international test score and education data is very clearly demonstrated in this book. It makes essential reading for anyone interested in differences in growth and in education performance across countries. (Stephen Machin, Professor of Economics, University College London, and Research Director, Centre for Economic Performance, London School of Economics)Hanushek and Woessmann exploit recently connected data from TIMMS and PISA and other international assessments to construct the most sophisticated and comprehensive measures yet seen of learning across countries and over time. (Education Next)In addition to compiling a data set of internationally comparable measures of cognitive skills, the authors have convincingly shown that such measures correlate highly with economic growth and cognitive skills can explain away large differences in growth rates between world regionshellip;nbsp;[A] valuable contribution and an interesting read. (Mikael Lindahl Journal of Economic Literature)About the AuthorEric A. Hanushek is Paul and Jean Hanna Senior Fellow and at the Hoover Institution of Stanford University. Ludger Woessmann is Professor of Economics at the University of Munich and Director of the Ifo Center for the Economics of Education and Innovation. Hanushek and Woessmann are coauthors (with Paul E. Peterson) of Endangering Prosperity: A Global View of the American School.