Economic Growth and Human Capital Investment in Sri Lanka

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Introduction

A salient feature in the Sri Lankan economy is its high social indices of health and education compared to other developing countries, despite its slow economic growth. A number of studies including Osmani (1993) and Bhalla and Glewwe (1986), show that these high indicators were the results of high government expenditure on welfare. Bhalakrishnan (1985), Gunathilake (2000) and Lakshman (1997) argue that Sri Lanka could have achieved the existing social development levels earlier through economic growth if the resources devoted on social welfare were invested on economic growth.

In Sri Lanka, since independence, each successive government devoted a considerable amount of government expenditure for education and health. The major aim was to achieve higher rates of economic growth through human capital development. However, after 1977, this approach has been changed to promote investment in both human capital and physical capital.

The main objective of this study is to analyze the contribution of government health and education expenditure in the case of accelerating economic growth. This study also attempts to identify the most suitable approach for economic growth. The study will be useful in making future policy decisions.

Materials and methods

This study is mainly based on secondary time series data that were collected from the annual reports of the Central Bank of Sri Lanka. A multiple linear regression model is used to achieve the objectives of the study. The main variables used as independent variables were real per capita education, health and poverty-reduction expenditures. The infant mortality rate, literacy rate, life expectancy and growth rate of real per capita income were used as the dependent variables. The methodology used in Anand and Kanbur (1991) is used in the study with some changes, because Anand and Kanbur did a study focusing on welfare expenditure and economic growth.

Limitations

In this study, it was not possible to find data on the literacy rate and life expectancy for a few years. So the data for those years were calculated by using the median method.

Results

The results of this study show that there is a significant impact of government expenditure on infant mortality rate, literacy rate and life expectancy. The regression results suggest that the human development may be a result of government expenditure in the sectors of education and health. However, the growth rate of real per capita income has little significant impact on human capital indicators.

Discussion

It is clear that, human capital investment is a function of economic growth. So, investing for health care and education will lead to increase economic growth. On the other hand, education plays a key role in the process of economic growth to absorb modern technology. Moreover, health is a prerequisite for increasing productivity. Thus, both health and education can be seen as vital components of economic growth.

Conclusions

The study concludes that investing in human development will benefit in the long run. But investing in capital accumulation will benefit even in the short run. Therefore, in the process of accelerating economic growth, investing for capital accumulation will be more productive. Investment in health and education will lead to increase human capital which leads to an increase in economic growth in the long run.

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