

ERSA Research Brief

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How Does Human Capital Shape the Social Contract?

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This research brief presents the key findings and potential policy implications of an empirical paper on the link between education and institutions. Specifically, the paper seeks to examine the impact of education on corruption and law-and-order at different levels of political and economic development. In so doing, I attempt to investigate the contribution of aggregate human capital to the underlying social contract. The choice of corruption and law-and-order as outcome variables of social contract is meant to have both the classical liberal (John Locke) and absolutist (Thomas Hobbes) schools of thought, respectively, represented in the analysis. I use country level panel data on education, corruption, law-and-order and other controls for as many countries as data is available.

The regression results presented in the paper show that the effect of schooling on corruption is nonlinear. This means higher levels of education have a disproportionately bigger impact of reducing political corruption than lower levels of education. Such convexity does not hold in the relationship between education and law-and-order. Among the two measures of human capital used in the paper, the schooling of the least educated 60 per cent of the population is more robustly related to the level of political corruption than average years of schooling. A one standard deviation increase in the share of human capital of the least educated 60 per cent population has a larger impact on corruption than on law-and-order in the long-run. The effect of the same increase on law-and-order is found to be positive and stronger in the short-run than the corresponding effect on corruption. There is strong complementarity between average years of education and per capita income in reducing corruption to the extent that an isolated increase in only one factor might lead to more corruption. The joint effect of democracy and education on corruption could not be clearly identified by the current estimates. On the contrary, average years of schooling is shown to have a positive and statistically significant effect on law-and-order independent of democracy. The low level of average education in Sub-Saharan Africa contributes to the high corruption in the region partly because it also leads to weaker democratic institutions and less constraints on the executive.

The above findings can be useful in fine-tuning strategies for governance reform with respect to current levels of education as well as in linking future human capital investment with good governance. Obviously, modern society values both the above dimensions of the social contract as important components of the broader framework of good governance. In addition to maintaining good governance, developing countries are encouraged to invest in their education sectors. Access to free elementary education is enshrined as a second generation human right. Therefore, the intrinsic value of education could be presented as an end in itself as part of the good governance framework. However, education is as much a means to bring about development as it is an end in itself. Understanding how education is interlinked with corruption

and law-and-order will, therefore, enhance the efficiency of resources expended to ensure good governance in developing countries.

The weak relationship between average education and control of corruption at the early stages of educational development sends a sobering message to policymakers in developing countries that they need to do much more than expand access to education to fight corruption. Moreover, as far as the use of education in controlling corruption is concerned, the focus should be on attaining broad-based expansion rather than simply increasing average years of education. The results also send a cautionary message to policymakers about the link between education and corruption in the absence of economic growth. If economic growth is weak, educating more people might as well result in well trained rent-seekers scrambling for the same amount of resources. However, these results should not discourage investment in education. At least in the case of law-and-order, there is a strong, linear relationship between education and good governance in the short-run.