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Education and Economic Growth In South Africa: An Empirical Investigation

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ABSTRACT

This paper takes a fresh look at the dynamic relationship between education and economic growth in South Africa, using modern time-series data. Currently, there exist four views regarding the relationship between these two key variables. The first view argues that there is a unidirectional causal flow from education to economic growth; since a highly educated work force increases economic growth. The second theory, however, maintains that it is economic growth that Granger-causes education at all levels – because higher economic growth leads to a greater investment in education. The third view is a middle-ground view, which states that both economic growth and education Granger-cause each other. The fourth view, however, maintains that there is no profound causal relationship between these two variables, and the relationship between the two could be merely coincidental. Unlike some of the previous studies, the current study uses three proxies to measure the level of education in South Africa, namely human capital, total education expenditure, and per capita school enrolments. In addition, the study uses two intermittent variables, thereby leading to a multivariate Granger-causality model. In order to address the methodological weaknesses of some of the previous, the current study uses the Autoregressive Distributed Lags (ARDL) bounds testing approach and the ECMbased Granger-causality model to examine this linkage. The findings of this study show that causal relationship between education and economic growth is dependent on the variable used to measure the level of education. In addition, the causality changes overtime.

KEYWORDS Education; Economic Growth; South Africa

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