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The Positive Effect of State-Owned Enterprises on Human Capital Accumulation in China: An Analysis Based on an OLG Model and Provincial Panel Data

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ABSTRACT

The externality of State-Owned Enterprises (SOEs) on macroeconomics is an important issue for policy makers and economists. In the process of the economic reform in China, there have been many factors directly motivating the accumulation of human capital in China, including the increasing financial expenditure in public education, various reforms of education system, etc. This paper tend to verify that the State-Owned Enterprises play a role in motivating the accumulation of human capital after the 1998 reform. This acts as one of the mechanisms for SOEs to have positive externality on macroeconomics. Based on a two-sector OLG model and the empirical work with the provincial panel data from 2002 to 2013, this paper finds that SOEs have stronger demand for highly-educated labor because of its own characteristics, which motivates the individuals to choose education in several ways in an economy with positive externality of human capital. Thus SOEs improves the accumulation of human capital to the social optimal level. But if the demand of SOEs for highly-educated labor is higher than a certain level, the social welfare would turn down.

KEYWORDS State-Owned Enterprises; Human Capital; Education Decision

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