



**ECONOMIC GROWTH AND DISPARITY ISSUES IN INCOME AND EDUCATION:
A CAUSAL ENQUIRY ON ASEAN COUNTRIES**

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Abstract

One of the prime motivations of economic research is the issue of causality. Not only does it offer fascinating theoretical views on economic variables, providing proof of causal linkages also serves as useful foundations for policy actions. This paper attempts to offer significant contribution to the literature by examining causal linkages between economic growth, income inequality and education inequality. Data for several ASEAN countries are compiled in this study and are examined using Toda-Yamamoto Granger Causality test. Several lag specifications were considered and the appropriate model was selected based upon various diagnostic measures. The results reveal a unidirectional causality from income inequality to economic growth. Test procedures fail to find any evidence of causality between economic growth and education inequality as well as between education inequality and income inequality despite various empirical indications in other studies suggesting some form of connexion among the variables.

Keywords: education; income; inequality; socio-economic development.

JEL Classification: O1; I2.

1 Introduction

Efficient policy making requires understanding of the way variables that represent issues in society works. Profound appreciation for such societal issues as efficiency and equity has seen increasing emphasis on scientific enquiry on these issues in modern economic literature. A rigorous examination of historical behaviour of society for instance, enables scientists to understand how social agents respond to policy changes and recommend appropriate actions that will result in desired outcome. Moreover, recent advances in statistics which has made its way into economic studies propelled further progress in this area.

In retrospect, economic growth has long been one of pivotal interest of policy makers as it is the most desirable outcome in any economy. A feeble growth performance may lead to rise in political tension, asserting pressure on leaders of an economy to ensure a stable growth. This is manifest as history has seen premiers ousted in times of poor economic performance. To offer some perspective, one might conjure up such cases as seen in the infamous Suharto era in Indonesia, an Association of Southeast Asian (ASEAN) country.

Economic downturn of course, also results in detrimental social repercussions. An underperformance in aggregate income will induce firms to ease their respective outputs, in response to weak demand. A rational profit maximising firm will respond to this by reducing its inputs which includes labour. Downsizings of labour input are therefore natural adjustments for firms particularly those in private sector. In aggregate sense, this would be reflected in increase in unemployment, which in turn will induce strain on governments as support services like unemployment benefits are required in such times. The need for support services is essential as unemployed persons are more likely to fall into a spiral of unproductive activities that are potentially harmful to society (Yan, 2012). The will and resources of governments however, can only stretch thus far.

The importance of growth has led researchers to debate on various models and theories that are able to explain and thus predict economic performance. The intent of this paper however, is not to delve in this particular arena. This paper on the other hand, intends to offer some empirical evidence on a specific issue, the social dimensions that surround growth concerns.

Gearing towards an inclusive economic development requires improvements beyond output growth. Increment in national income does not necessarily translate to improvement in standard of living for the masses. In the case of American economy for instance, despite growth over the past four decades, the top one percent of household earnings have increased

from less than 10 percent to over 20 percent of overall national income (Saez & Zucman, 2014). The fact that benefits of economic growth are only accrued to certain segments of the society suggests increasing disparity in income. This invariably acts as impediment in achieving optimal growth trajectory as suggested in the literature. In developing economies, the need for ensuring equal distribution of income is ever more pressing as the proportion of poor household tends to be higher than in advanced economies. Income distribution is therefore a dimension of economic development which deserves as much attention as efficiency.

Another crucial dimension of socio-economic consideration is education. The value of education has been acknowledged as far as civil society may evoke its history. Incessant accumulation of knowledge and the dissemination of what has been learned by mankind across generations has been a crucial success factor of our society. Naturally therefore, economists pay particular attention on human capital development, a result of education in the development process of societies. Ideally, every agent in the society should have access to some sort of formal education. The minimum level of education which is ordained on citizens varies across countries, adhering to their respective systems. At the very least however, education is a recognised internationally to be essential, as evident in article 26 of the Universal Declaration of Human Rights.

While importance of education is acknowledged, it is unfortunate that in reality, not all have equal opportunity to basic education, particularly in developing countries. Various factors such as geographical composition as well as policy formulation may inhibit optimal progress in education. With over 50 million students, the populous archipelago nation of Indonesia for instance, ranks fourth in the world in terms of education system size. This presents challenges that are unique to the country. 30 percent of the adult population in Indonesia attained primary education while 43 percent attained secondary and tertiary education (ASEAN, 2013). This leaves 27 percent of its citizens above 25 years of age completely without any form of formal educational background. Prospects for improvements in educational system throughout the region, is therefore encouraging.

In retrospect of preceding arguments, this paper places emphasis on disparity issues in income as well as education in the midst of growth concerns. Exploration of these socio-economic concerns of economic growth is done through the lenses of causality. A concept that has found its way across a multitude of disciplines, economics included. Scientific enquiry on this matter thrived when Granger (1969) formulated a formal method that enables