

Preface and acknowledgements

When I started to work on this thesis the topic was broadly defined as the ‘standard of living in India and Indonesia in the twentieth century’. It soon turned out that this topic was both too broad and too narrow. It was too broad in the sense that the ‘standard of living’ comprises of all sorts of measures, ranging from GDP, to food consumption, health, and education. In order to narrow this down the choice fell on ‘human capital’ since this is a key variable in explaining economic development and it is strongly related to other variables such as health and education. Human capital, in the form of education, was clearly less developed in India and Indonesia compared with many European countries as was their economic development. This made it necessary to broaden the initial research topic to include an Asian country that experienced the same development of educational institutions but was successful in economic development. Japan was a natural choice.

While reading the literature on human capital and economic growth, four questions came to mind. A first and foremost question was what human capital actually is. Most studies include proxies such as ‘average years of education in a population’ without clarifying how they relate to human capital. The second question that came to mind was how institutional development in different countries affects the accumulation of human capital. The third question was how human capital relates to economic growth while the fourth question related to the strength of the relation between human capital and growth.

The last two questions are extensively treated in the economic literature. Many studies are available on growth theories, describing the theoretical effect of human capital on growth. Equally, many studies exist that use human capital proxies to estimate the strength of the relation between human capital and growth. However, the situation is that most empirical studies still have difficulties with determining which growth theory is the most applicable. Another problem is that the effect (if any) of human capital on growth generally found in the literature is much lower than is expected on the basis of micro studies, which makes it likely that there are still too many unknowns in the relation between human capital and growth.

Given my background in economic history, my focus was thus more on the first two questions which I hoped could explain some of the inconsistent results in the relation

between human capital and growth. Indeed, probably no one would doubt that the impact of the choice of human capital variable on the results and interpretation is crucial. Equally, the importance of institutional development for the existence of the relationship between human capital and growth is also rarely disputed. In fact, the use of dummies and fixed-effect panel regressions in empirical estimates of the role of human capital is a confirmation of its country-specific development. Indeed, Eicher, García Peñalosa, and Teksoz (2006), using a simple extension of the Solow model, show that institutions mainly work through the factors of production.

The last two questions, on growth theory and empirical estimates, are only touched upon in this thesis as far as their results are affected by the answers on the first two questions. Although this thesis certainly does not provide (or aims to provide) definitive answers, we hope to show that it is fruitful to pay more attention to the construction of human capital and the way in which human capital accumulation is affected by institutions. In addition, without arguing that this road is the only, or even a right, one, we hope to show that a stronger focus on the first two questions may also have an impact on both theoretical and empirical studies on human capital and growth.

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