



Growing human capital investment in China compared to falling investment in the United States

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1. Introduction

Thank you very much, Dominick. It is a pleasure to appear on this distinguished panel. I am going to speak about human capital investment in China and its relation to China's participation in the world economy. The Cultural Revolution basically destroyed education in China, particularly higher education. Data for the early period the sixties and the seventies shows that very few people were in school in China, particularly in secondary school or university. As China began to participate in the world economy all this began to change. The Chinese government began to spend what had been a very small fraction of its income on education to a still low, but a much higher fraction.

More importantly, families and their children began to appreciate that as China participated in the world economy with exports, imports, and foreign direct investment, investments in secondary school and in tertiary education paid off. People spend their own money usually only when it pays off, and they began to see that it did pay off significantly. So you begin to get a boom in both secondary and tertiary education. This had two major implications, among others. One, you set up a kind of dynamic comparative advantage for China; that is, the increase in the education of the population enabled the nation to move ahead over time toward more complicated products, services and activities – a very important point as we try to look at trajectory of China's growth in the future. Secondly, it created substantial income inequality in China, an inequality that is receiving a lot of attention in China and which I will talk a little bit about.

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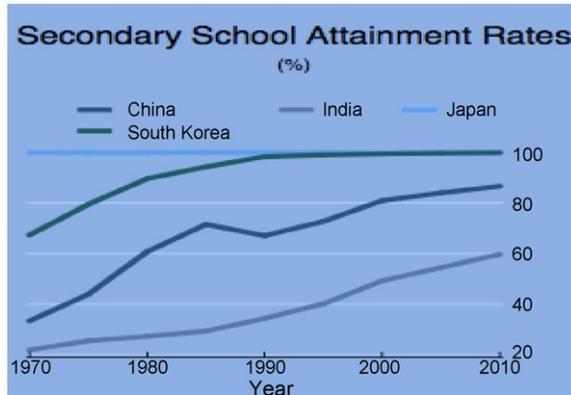


Fig. 1. Secondary school attainment rates.

Data sources: Samir, Bakarar, Goujon, Skirbekk, and Lutz (2008) and Lutz, Cuaresma, and Sanderson (2008).

2. Secondary and tertiary education in China

I have a few slides that document some of the statistics of what is going on in China. The first chart I have looks at secondary school attainments rates in China (Fig. 1).

Secondary schools in this database are basically what we call middle schools, not high school graduation rates. China really boomed starting in the 1970s and that is continuing into the present. So a large fraction of the Chinese population goes through middle schooling. That includes people in rural areas as well as in urban areas. Compared to India, China is well out in front of India. It is a richer country per capita, and is well out in front of India, but it is way behind South Korea and Japan, which have two of the highest education levels of any countries in the world.

Now if you look at tertiary education, China started slowly in tertiary education with almost nothing because of the Cultural Revolution. Tertiary education in China began to increase in 1980s and really started to rise rapidly in the 1990s. Fig. 2 on school enrollments rates in tertiary schools in China shows that, starting at around 1995, there was a dramatic increase in the number of students enrolled in higher education and tertiary education – a dramatic increase that has been continuing to this day.

Furthermore, more women are enrolled in higher education in China than men, which is kind of a worldwide phenomenon in every rich country in the world and in many developing countries. China is one of the developing countries for which this is true (Fig. 3).

Higher enrollment in tertiary education has been driven by data (that I would not present) showing higher rates of return to tertiary education. China's participation in the world economy has greatly raised returns from getting higher education, and students have responded to this greater incentive. Education is expensive to the students in China. The government spends a little, but most of the expenditure is made by the students and their families. Students and families have been responding to what has been a very significant increase in the rate of return, partly due to foreign direct investment in China and the creation of good jobs with foreign companies, but partly also due to the upgrading of product and the increase in exports and imports that has accompanied China's greater participation in the world economy. So tertiary education, while still low as a fraction, is booming in China. My forecast is that China will continue to rise rapidly in the ratings in tertiary education among countries.

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