

The Impact of Human Capital Investment towards Labour Productivity: Evidence from Malaysia

ABSTRACT

The economic value of education, in terms of its contribution to social and private returns (Psacharopoulos, 1994), motivates individuals and countries to invest in the education industry. One of the social returns of human capital investment is an increase in productivity that leads to economic growth. This paper studies the contribution of human capital investment towards productivity. In particular, we quantify contribution of different levels of education to productivity growth at industry level in Malaysia during 2005 to 2012. The Arellano-Bond (1991) approach that uses the longitudinal data, produces efficient and reliable estimates in our case. We find that at aggregate level, primary, secondary, and tertiary education levels are all important in terms of its contribution to productivity. The more specific industry analysis however shows that primary education does not play a significant role in productive industries, whereas it is as important as any other level of education in low productive industries. We also study the impact of National Higher Education Strategic Plan (NHESP) 2007 policy during our sample period on productivity growth and subsequent policy change in 2009 due to change in the regime.