

# PROSPERITY AND EDUCATION - AN INDISSOLUBLE CONNECTION?

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## **Abstract:**

*Nowadays, the meaning of prosperity has gone beyond material wealth. Starting with the classical ones, we can see that many of the economists asks themselves what prosperity really means, as it is a problem studied from many years and it does not have an unique and general accepted definition. As Indira Gandhi said: „Freedom is indivisible ...peace is indivisible ...economic prosperity is indivisible”, we can say that the issue is still of interest and in the same time it is controversial. Very often economists ask themselves which are the factors influencing the prosperity of a country. Thus, this paper aims to emphasize some different approaches of the concept of prosperity.*

**Key words:** prosperity, education, economy

**JEL classification:** I00, I31, O10

## **1. INTRODUCTION**

Since mid-2008, the world has been hit by a major financial crisis, which quickly translated itself into a global recession. According to the IMF, the world economy shrank by 0.6 percent in 2009 and while the global output is expected to grow by around 4.5 percent in 2010, the recovery is still fragile in many regions of the world, particularly in parts of Western Europe and in the United States (Legatum Prosperity Index, 2010). In the common sense of the concept of „prosperity” we may say that there are some issues to elucidate.

From Aristotelian studies to Adam Smith’s studies or to later analysis, the concept of prosperity remained a controversial one. Any cursory examination of the literature reveals that, beyond the narrow economic framing of the question, there are some strong competing visions of prosperity. Some of these visions hail from psychology and sociology. Others hail from economic history. Some draw on secular or philosophical viewpoints; others from the religious or wisdom’ traditions. It is obvious the fact that there are differences between these approaches, but there are also some striking similarities (Jackson, 2009). For instance, in Buddhism, prosperity is viewed with an emphasis on collectivism and spirituality. This perspective can be at odds with capitalistic notions of prosperity, due to their association with greed (Gottlieb, 2003). Many perspectives accept that prosperity has material dimensions. It is perverse to talk about things going well if you lack the basic material resources required to sustain yourself: food and water to be adequately nourished or materials for clothing and shelter. Security in achieving these aims is also important.

During time, economists have long emphasized the importance of human capital for achieving economic growth and prosperity. One of the most used phrases in defining the prosperity is the following: “Prosperity is not just about income”, as rising

prosperity is not the same thing as economic growth. But this does not in itself ensure that prosperity without growth is possible. A distinct possibility remains that growth is functional for prosperity: that continued economic growth is *a necessary condition* for a lasting prosperity.

## 2. PROSPERITY AND EDUCATION

### 2.1. What prosperity means?

Many economists chose to examine three closely related propositions in defence of economic growth:

- ✓ The first is that opulence — though not synonymous with prosperity - is a necessary condition for flourishing.
- ✓ The second is that economic growth is closely correlated with certain basic entitlements - for health or education, perhaps - that are essential to prosperity.
- ✓ The third is that growth is functional in maintaining economic and social stability.

But, beside this approaches, there is another one which show that there is an interesting overlap between components of prosperity and the factors that are known to influence subjective well-being or “happiness”. This doesn't mean that prosperity is the same thing as happiness. But the connection between the two provides a useful link into recent policy debates about happiness and subjective well-being. Amartya Sen, the Nobel Prize laureate, set out the distinctions very clearly in a landmark essay on “the living standard”(Sen, 1982). One of Sen's concepts was characterized by the term *opulence*, another, by the term *utility* and a third through the idea of *capabilities for flourishing*.

Broadly speaking, Sen's first concept - *opulence* - corresponds to a conventional understanding that prosperity is about material satisfactions. Opulence refers to the ready availability and steady throughput of material commodities. An increase in the volume flow of commodities represents an increase in prosperity. The more we have the better off we are, in this view (Jackson, 2009).

The explanation for the concept of *abundance* may be found in the work of Adam Smith (Smith, 1962). In those days providing material commodities to meet the necessities of life was a priority. But it is pretty straightforward to see that this simple equation of quantity with quality, of more with better, is false in general. Even economic theory recognizes his limitation. The “diminishing marginal utility” of goods reflects the fact that having more of something usually provides less additional satisfaction (Stiglitz and Wlsh, 2005).

When studying *prosperity as utility*, Sen starts from the fact that quantity is not the same thing as quality. Opulence is not the same thing as satisfaction. Rather than focusing on the sheer volume of commodities available to us, this second version relates prosperity to the satisfactions which commodities provide.

There's a particularly important complexity here. Increasingly, the uses to which we put material commodities are social or psychological in nature rather than purely material. In the immediate post-war years it was a challenge to provide for basic necessities, even in the most affluent nations. Today, consumer goods and services increasingly furnish us with identity, experience, a sense of belonging, perhaps even meaning and a sense of hope.

Measuring utility in these circumstances is even more difficult. What is the psychic satisfaction from an iPhone? A new car? These questions are practically impossible to answer. Economics gets round the difficulty by assuming their value is equivalent to the price people are prepared to pay for them in freely functioning markets. It casts utility as the monetary value of market exchanges. The GDP sums up

all these market exchanges. Broadly speaking, it measures the total spending by households, government and investment across the nation (Stiglitz and Walsh, 2005). Spending is taken as a proxy for utility. And this, in a nutshell, is the case for believing that the GDP is a useful measure of well-being.

But the case is deeply problematic at best. There is a huge literature critiquing the value of GDP as a well-being measure. Going back at least as far as Robert Kennedy's famous 1968 speech lamenting that GDP "measures everything, in short, except that which makes life worthwhile", political leaders and scholars have recognized the inadequacies of GDP as a measure of true prosperity.

More recently, high profile figures such as French President Nicolas Sarkozy have joined the debate. He created a commission of 25 eminent scholars, including five Nobel Laureates, to reassess according to the Commission's official title, the "*Measurement of Economic Performance and Social Progress*". The Sarkozy Commission's report, issued on September 14, 2009, concluded that while there is no single "holy grail" statistic which can quantify everything meaningful in a single number, a range of new variables should be included in measuring a nation's progress. While the Sarkozy Commission report gives perhaps too much weight to government regulation and social welfare spending as intrinsic goods, it is overall a welcome contribution to an important discussion ([www.prosperity.com](http://www.prosperity.com)).

Critics point to the fact that the GDP counts both "defensive" and "positional" expenditures even though these don't contribute additionally to well-being. And, perhaps most critically, the GDP fails to account properly for changes in the asset base which affect our future consumption possibilities.

A key finding here is the so-called happiness (or life-satisfaction) paradox. If GDP really does measure utility, it's a mystery to find that reported life satisfaction has remained more or less unchanged in most advanced economies over several decades in spite of significant economic growth. Real income per head has tripled in the US since 1950, but the percentage of people reporting themselves very happy has barely increased at all, and has declined since the mid-1970s. In Japan, there has been little change in life-satisfaction over several decades. In the UK the percentage reporting themselves 'very happy' declined from 52 per cent in 1957 to 36 per cent today, even though real incomes have more than doubled (Jackson, 2009).

An opinion that can be expressed when speaking about measuring prosperity by starting from the happiness of people is that happiness is also a very abstract notion. People can be unhappy for all sorts of reasons, some of them genetic, even when things do go well. Equally, they may be undernourished, poorly housed, with no prospect of improvement and yet declare themselves (some might say foolishly) completely content with their lot. Happiness may be seen as a state of moment, but we are going to see later how economists can "measure" it.

There is also another perspective concerning prosperity. Sen sees it as *capabilities for flourishing*. He starts from studying how well people are able to function in any given context. Sen stresses not so much the functioning themselves - whether people actually live long, have a worthwhile job or participate in the community - as the capabilities or freedoms they have to do so. His point is that in a liberal society, people should have the right to choose whether or not to participate in society, to work in paid employment and perhaps even whether to live a healthy life. It is the capability to flourish that is important (Sen, 1982).

It is well known the fact that in a world of limits, certain kinds of freedoms are either impossible or immoral. The freedom endlessly to accumulate material goods is one of them. Freedoms to achieve social recognition at the expense of child labour in the supply chain, to find meaningful work at the expense of a collapse in biodiversity or

to participate in the life of the community at the expense of future generations may be others.

Capabilities for flourishing are a good starting point from which to define what it means to prosper. But this vision needs to be interpreted carefully: not as a set of disembodied freedoms, but as a range of “bounded capabilities” to live well - within certain clearly defined limits, such as the finite nature of the ecological resources within which life on earth is possible or the scale of the global population.

Capabilities are bounded on the one hand by the scale of the global population and on the other by the finite ecology of the planet. In the presence of these ecological limits, flourishing itself becomes contingent on available resources, on the entitlements of those who share the planet with us, on the freedoms of future generations and other species. Prosperity in this sense has both intra-generational and inter-generational dimensions.

It is said that no matter what opinion on prosperity we read, there is a general factor that influences it. And that is the education.

## **2.2. Education**

Education is one of the most important investments an individual can make. It is also critical for the long-term health and prosperity of a nation.

Economic prosperity is generally measured in terms of living standards, and the improvement in living standards is closely linked to the growth in the productivity of labor, that is, how much is produced per hour of work. In order to improve living standards, the productivity of individuals in a society must increase.

Education affects productivity in two critical ways:

It supports innovation that creates new technologies, which, in turn, enhance the productivity of workers in the economy.

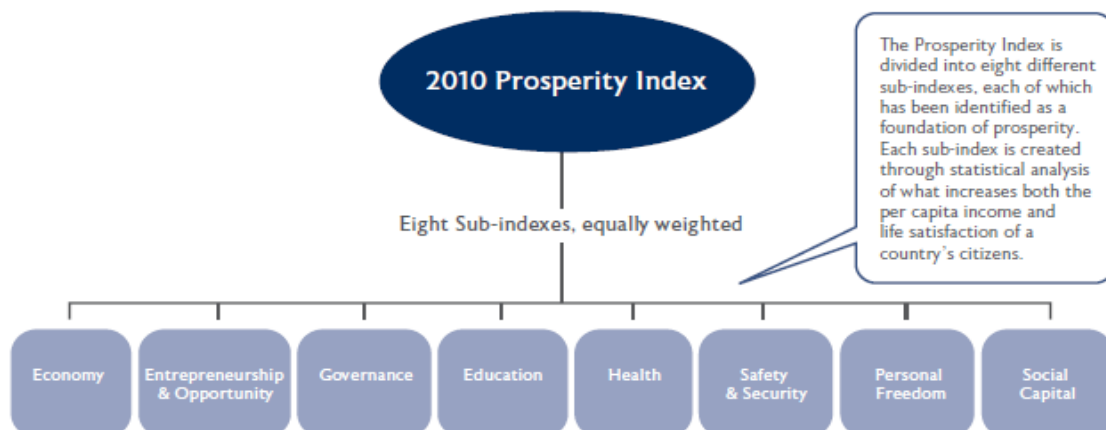
It improves workers skills, which allow them not only to use new technologies but also to use existing technology more effectively or efficiently. Thus, education is at the heart of productivity improvements and thus at the centre of how we achieve increases in economic prosperity (Plosser, 2008).

The authors of a study from 2001 analyzed 16 OECD (Organization for Economic Cooperation and Development) countries and found the effects of education on productivity growth to be considerable. They attributed this to the fact that universities provide basic knowledge to industries — knowledge that is then used to make technological innovations (Guellec and van Pottelsberghe de la Potterie, 2001).

Additionally, education can be used as an effective mechanism to reduce conflict in society and promote world peace. It broadens the sense of belonging and unity by teaching basic understanding of social needs, culture, human right, and people can be taught the social norms which are helpful for them to adjust to rapid change of society. Anti-racial, human right and law education also help people to reduce the sense of discrimination between races in society and cut down in great distance racial disputes in all societies, avoid committing activities violating other people’s right or nation’s law. Gender education teaches people the concepts of gender equity and the importance of cooperation between males and females in national development and family welfare.

In order to see how education contributes to the prosperity of a country, The Legatum Institute uses a sub-index related to education when measuring the prosperity of the countries around the World.

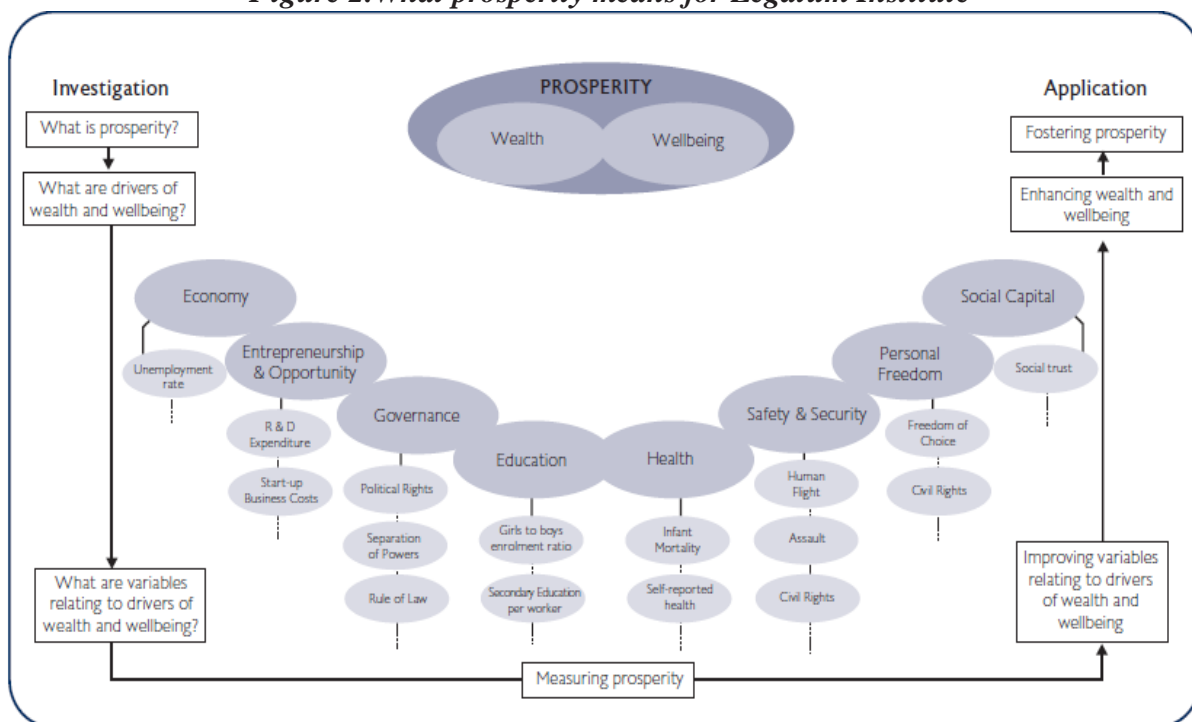
**Figure 1. Sub-indexes of the prosperity index**



Source: Legatum Institute (2010), *The Legatum Prosperity Index Report.2010*, London, UK, [www.prosperity.com](http://www.prosperity.com)

The Prosperity Index seeks to understand how economic fundamentals, health, freedom, governance, safety, education, entrepreneurial opportunity, and social capital influence a country's economic growth and the happiness of its citizens. It finds that successful countries enjoy a "virtuous cycle" of economic liberty and growth, political freedom and good governance, and enterprising and happy citizens, which mutually reinforce each other on the path to prosperity (Legatum Institute, 2010).

**Figure 2. What prosperity means for Legatum Institute**



Source: Legatum Institute (2010), *The Legatum Prosperity Index Report.2010*, London, UK, [www.prosperity.com](http://www.prosperity.com)

Unsurprisingly, in the Education sub-index one finds a number of variables (net primary enrolment, gross secondary and tertiary enrolment, girls-to-boys enrolment ratio, secondary and tertiary education per worker) that are related to wealth and life

satisfaction. There have long existed compelling reasons to believe that the accumulation of human capital through formal schooling affects economic growth.

Likewise, it is not difficult to imagine reasons for which the measures of educational attainment would be related to a sense of subjective wellbeing as education is generally perceived as providing one with a sense of control over his life and enhancing one's ability to enjoy non-material goods (Legatum Institute, 2009).

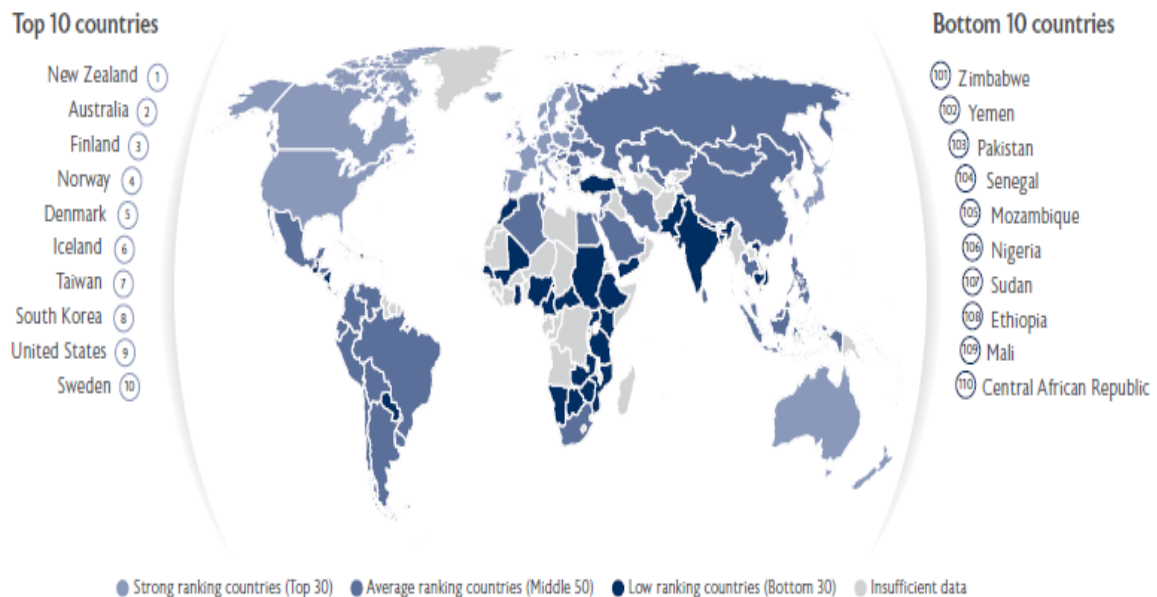
Education is a building block for prosperous societies. The Education sub-index measures countries' performance in three areas: access to education, quality of education, and human capital.

The Education sub-index demonstrates how access to education, as measured by levels of educational enrolment rates that are equal for both girls and boys, allows citizens to develop their potential and contribute productively to their society. In addition, it shows that human capital stock, which is measured by the average levels of education in the workforce, is essential for promoting private sector research and development as well as producing useful knowledge for a society. Because of the importance of citizen's own perceptions of the educational opportunity available to them, the sub-index uses both objective and subjective variables to assess the quality of education in a given country (Legatum Institute, 2010).

It is well known that human capital represents an engine for growth, making a case for the non-diminishing effect of education on rising GDP levels. While the relationship between higher levels of education and wellbeing is less clear-cut, research shows that basic education enhances people's chances in increasing their satisfaction with life.

As it can be seen in the figure below, unfortunately Romania is not situated in the first ten countries in what concerns the education level. Romania is only on the 43th place in the top realised starting from this sub-index.

**Figure 3. Top 10 and bottom 10 countries**



Source: Legatum Institute (2010), *The Legatum Prosperity Index Report.2010*, London, UK, [www.prosperity.com](http://www.prosperity.com)

Access to education ranks around the international average in Romania. Enrolment rates at primary and secondary level place the country 51st and 53rd in the Index, respectively, and there is gender equality in primary and secondary education. In

classrooms, there is a high ratio of 17 primary pupils per teacher (Legatum Institute, 2010).

Access to tertiary education is somewhat better, placing the country 31st overall. Still, Romanians are relatively dissatisfied with the education available to them, placing 69th on this variable. Moreover, the proportion of Romanians who feel that children have the opportunity to learn and grow every day is below the international average, placing the country 74th, overall. The Romanian workforce has solid basic education, with an average of 3.3 years of secondary schooling each, but little specialised knowledge, with just 0.8 years of tertiary education on average (Legatum Institute, 2010).

### 3. INSTEAD OF CONCLUSION

It is obvious the fact that in order to succeed to conduct to the growth of a country's prosperity, an educational system must not only train future workers for today's environment but also arm them with the tools and resources to continually upgrade their skills. Education is not a one-time event. Life-long learning is a necessity in today's rapidly changing world. That means providing students with both the desire and the tools to continue their education.

Today, as in the past, we need to be forward looking to adapt our educational system to the evolving needs of the economy and our changing society. We must work to provide graduates with the education needed to meet the realities of today's and tomorrow's marketplace (Plosser, 2008).

Those efforts will require the collaboration of policymakers and educators. But if such efforts are successful, we can ensure a more productive, highly skilled, technically trained workforce that will support a vibrant and robust economy in our region and the nation. The responsibility does not rest solely with government and policymakers, who clearly must do their part. It rests mostly on individuals taking the responsibility to engage in life-long learning, making investments that will reward them handsomely.

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