The Economic Value of Human Capital and Education in an Unstable Economy: the case of Argentina

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ABSTRACT

The aim of this paper is to present the first estimation of the economic value of human capital and education for Argentina.

We estimated the main indicators such as wealth human capital, productive capital and output of education of the labor force adapting the methodology suggested respectively by Jorgenson and Fraumeni (1989) (1992) and Mulligan and Sala i Martin (1997) (2000) adapting to the case of an unstable economy as Argentina.

In order to obtain life labor income by gender, age and education cohort, we have estimated the age-earning profiles through Mincer earnings regressions.

The case of Argentina, which presents an unstable economy, could be useful to test the methodology generally applied in developed countries. The unstable behavior of its main relative prices, mega devaluations, and disruptions in labor markets (high fluctuations in unemployment rate and real wages) could be the origin of important fluctuations in the value of human capital and output of education.

We find that Human Capital and Output of Education in Argentina have important procyclical behavior and a higher amplitude of fluctuations than developed countries as...
it is expected in this type of economy. Additionally, the ratio between human capital and capital stock followed the real exchange rate impact on input relative prices.

However, in spite of the unstable behavior at aggregate level, the composition of wealth human capital in Argentina is more stable and replicates some of the main characteristics of developed countries.

The methodology adopted allows to make a comparison of Argentina (a case of development failure) with Spain, Australia and New Zealand (successful present cases), which had similar per capita income as Argentina at the beginning of XX century.

One of the main results of the study is that the Wealth Human Capital in Argentina doubles Physical Capital Stock; similar to what has been found by ABS (2004) and Trinh (2004) for Australia and New Zealand.

Productive human capital is higher in Argentina, taking into account its relative more unequal income distribution than Australia and New Zealand.

The Output of the Education Sector is equivalent to aggregate GDP and 30 times greater than the education service industry measured in National Accounts; similar findings were verified in the case of Spain (Serrano and Pastor (2002)).