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## **A PLAN TO KEEP THE SOURCES OF GROWTH ACTIVATED FOR THE LONG RUN IN RESOURCE-ABUNDANT COUNTRIES: THE CASE OF KOSOVO**

***Abstract.** The long term growth in a country rich with oil or minerals is to be derived from the quality of its public institutions. Government controlled wealth stored in raw materials is known for feeding corruption and putting economies off of their optimal growth path. The main research question is the following: could welfare-improving public governance in a resource abundant country be maintained through making sound decisions concerning the quality of education? A national action plan emphasizing human capital growth through education is proposed. Given its demographics, Kosovo is in the right place to embark on a path of becoming a better-aware society in the horizon of two to three full cycles of compulsory education's time. To prevent the Kosovar society of becoming forsaken due to human capital flight, it is necessary that those who have the potential of forming elites remain in the country. The raw material abundance is predestined to act as a retarder in the country's development if no action is taken. To keep its curse unfulfilled, sound public policies need to be put in place. By achieving this through education, Kosovo could keep its growth – once activated – above the global average.*

***Keywords:** human capital, social capital, natural resource curse, education, human capital flight*

### **Introduction**

The following paper examines the specifics of the relationship between natural resources, public policy and education.

This article constructs a triangular counterweight argument where motivations stemming from natural resource abundance, education, and the quality of public institutions form its vertices. Each of those has the potential to influence the other pair. A problem of whether the focus on education of youth could eventually tame, correct and prevent the faults offered by the other two areas is addressed with the following research question in the foreground:

*Could welfare-improving public governance in a resource abundant country be maintained through making sound decisions concerning the quality of education?*

The aim is to offer a solution for uplifted future economic prosperity and public policy by setting the national vision to education. Given its young population and recent political changes, Kosovo stands fit for a push towards an improved education system through developing a broad action plan. While this research contributes to the narrow niche of natural wealth publications focusing on education, its novelty lays within incorporating the long-term perspective. Moreover, an idea of contemporary representatives getting citizens prepared/educated to hold their successors accountable through intergenerational public policy is presented.

The objective of this research is to inquire into whether education serves as key factor in forming a society that makes better decisions on governing itself as well as looking after the common property.

### **The vices summoned by natural wealth**

Resource wealth is a well-established topic highlighting the challenges that the natural resource abundance of Kosovo poses for the future. Literature on how this situation could potentially harm a country is plentiful. With the famed paper by Sachs and Warner (1995), the research on the effects of resource abundance on economic growth was given clear contours and sparked talks of the resource curse. Sala-i-Martin and Subramanian (2013) further saw that the ownership of resources such as oil or minerals embeds rent-seeking, weak governance and corruption within an economy. Numerous research branches are still sprouting to explore the topics such as losing competitiveness in the manufacturing sector through its diminishing importance as well as through the influence of the resources' exports on the exchange rate due to resource-richness (Bresser-Pereira 2008; Lartey et al. 2012; Oomes and Kalcheva 2007; Nkusu 2004).

This paper focuses on how resource abundance links the quality of public institutions and how their development can alter the approach through which natural wealth is transformed into economic growth. The existence of large amounts of finite natural resources creates a situation with increased rent-seeking incentives. Hausmann and Rigobon (2003) or Torik (2002) argue that the existence of large resource wealth accumulated around the government motivates agents with entrepreneurial intentions to become *grabbers* and engage in rent-seeking activities rather than starting a firm of their own and boosting the productive economic activity. This is seen as a crowding-out effect which motivates those competent of

doing business to enter the public sector behind the scenes. In other words, the presence of minerals predestines economies to be more economically and socially divided and to have weaker public institutions (Isham et al. 2005; Wick and Bulte 2006).

The above stated impairs economic growth and sows dissent within the general public. Corruption is key factor in this and again, as Leite and Weidmann (1999) prove, natural resources are one of its prime determinants. Solid public institutions, on the contrary, are – according to the authors – precisely the best precautionary measure that can be put in effect to prevent corruption. Bhattacharyya and Hodler (2009) conclude that the tendency of resource-richness feeding corruption could be checked through political accountability i.e. strong democratic institutions. Robinson et al. (2006) reach a similar conclusion arguing that resource booms increase the value of being in power. Mechanisms to hold those in power accountable serve as best practice in taming the finicky motivations this brings.

Another problem such setting poses is volatility. While a country scales up its resource dependence and the importance of other sectors is hence downgraded, it loses its ability for absorbing shocks. Shakes on the commodity markets (checking the 5-year prices of lead, zinc and nickel proves this is a concern for Kosovo) are being felt more strongly and those curb not only growth – they also disturb the macroeconomic stability. Increased volatility is known, among other things, to have an impact on educational attainment which serves as an invisible obstacle for a given economy only until the long run arrives with pupils growing older – when the obstacle, as it poses threat to intellectual capital growth, gets unmasked. Kosovo still is a fragile young state that crucially needs stability.

While Gavin and Hausmann (1998) find out that macroeconomic volatility influences educational progress negatively, harming education attainment levels, Gylfason (2001) makes a case of resource rich countries becoming overconfident, neglecting good economic policies as well as education. Flug et al. (1996) also prove inversed relationship between increased macroeconomic volatility and secondary school enrollment. These are ways for the crowding-out of human capital by natural capital – thereby slowing economic development and potential growth side by side with the lobbying *grabbers* maximizing their profits at the costs of the economy sliding off its optimal path.

### **Human capital is key**

A vast stock of literature focuses on the link between human capital and economic growth. Although health and social capital play crucial roles in the determination of human capital as well, education is the cornerstone of it. An existing consensus underlined by the

meta-analysis conducted by Benos and Zetou (2014) tells us that it is the quality of education that matters, not mere years of schooling. Barro (2001) also favors this view, while finding value in rising average years of secondary schooling that serve as a driver of growth. These works, alongside with Hanushek and Woessmann (2010), bring the level of acquired cognitive skills, which are a result of school attainment, to the spotlight if one is to look for powerful economic effects. These works settle for a firm belief that a skilled workforce serves as base for uplifting the economic performance of a country.

Educated society creates such workforce, but does higher quality of education enhance citizenship? This paper has so far pitted two vectors against each other. The darker sides of resource-richness are on one side and the emphasis on better public governance with improved quality of education on the other. Inadequate treatment of natural wealth harms economic development while human capital growth uplifts it. But is there a relationship between the collective cognitive ability of a nation enhanced by education and the quality of its public institutions? Are better educated citizens making coveted voting choices and hence choosing representatives who devote themselves to building institutions that keep the inviting overtures to exploit resources and lower education quantity and quality blank? In a democratic setting, the day of elections serves as a tipping point which determines where the emphasis will be put.

Dee (2004) stresses the importance of secondary and post-secondary institutions in increased civic participation and uplifted returns on improved citizenship. Educated individuals prove to having a tendency of being better informed. Coley and Sum (2012) report significantly higher levels of social involvement by members of society with higher educational levels attained as measured by voter turnout or the involvement in a political or otherwise public agency (healthcare/education). Being increasingly informed serves as a cause for a higher tendency to vote in research done by Lassen (2005) as well. A broad survey conducted by Baum and Payea (2013) points towards increasing education attainment having a positive impact on parts of life such as the understanding of political issues, voter turnout ratios or hours of public service (volunteering). Moreover, individuals with diplomas from institutions that are higher on the education scale tend to care about their health considerably more. Oreopoulos and Salvanes (2011) take a step further away from improved health, mentioning increased opportunities for self-accomplishment and social interaction stemming from better education. Results showing increased attention to public affairs and a better overall awareness of candidates and campaigns are reported by Milligan et al. (2004). Glaeser et al. (2007) or Halliwell and Putnam (1999) prove a link between education and

civic/political engagement: better educated citizens are also more competent organizers who tend to preserve democracy. Increased social engagement is also seen as a major component contributing to total human capital. Kam and Palmer (2008) offer a view in which higher education does not serve as a cause for political involvement but still serves as a driver towards it.

In general, educated citizens tend to arrive at a conclusion that doing nothing is not a privilege. In this sense, education has the form of a positive externality that makes the social glue more sticky and the free rider problem less present in civic matters. Educated individuals are more likely to set up a citizen organization promoting common values, therefore, helping their fellows in growing their intellectual capital. Democracy feeds off of education and better choices are being made in greater numbers come day of elections. That is when the long awaited cognitive abilities of a nation kick in with their impact being stronger when every new cohort of first-time-voters who have gotten through an improved education system finds their way to the ballots. There are no diminishing returns to increasing education and/or its quality. Surely a statement that more years of schooling or a fancier diploma serves as good measure of education would be shortsighted. The following chapter offers a view on what the depth and the width of contemporary education for a young developing country landlocked within the Balkan peninsula should be comprised of in a pursuit to increase the quality of education as well as to boost (through knowledge transfer) human capital for generations to come.

### **An educational action plan**

The expansion of worldwide education systems as well as attainment in the second half of the twentieth century is an astonishing accomplishment for humanity. Different nations set varying goals for what compulsory education should accomplish but the overarching message of planetary education – the result of which is that virtually every reader of this text born after 1985 has received schooling at least to some extent according to its guidance – lays within Article 29 of the Convention on the Rights of the Child (1990):

- (a) The development of the child's personality, talents and mental and physical abilities to their fullest potential;
- (b) The development of respect for human rights and fundamental freedoms, and for the principles enshrined in the Charter of the United Nations;
- (c) The development of respect for the child's parents, his or her own cultural identity, language and values, for the national values of the country in which the child is living, the

country from which he or she may originate, and for civilizations different from his or her own;

(d) The preparation of the child for responsible life in a free society, in the spirit of understanding, peace, tolerance, equality of sexes, and friendship among all peoples, ethnic, national and religious groups and persons of indigenous origin;

(e) The development of respect for the natural environment.

These points provide plenty of room for the creation of a nationwide education plan that helps tackle the challenges depicted in the previous part of this paper. The situation calls for a strong political motive to influence the reform of an education system of children in Kosovo. This motive should be to promote democracy, civic activity, critical thinking and enhanced public sensitivity towards how the natural wealth of the country as well as how public affairs are governed. In a time when technology-enabled education and digitalized ways of knowledge transfer have been catalyzed by the global pandemic, the chances for rolling out a successful path for better education are more favorable than in the past.

As the oldest children born in the country after the declaration of its independence are to reach their teenage years in 2021 and the population pyramid has a solid wide base, the timing is perfect for the reform to take place. If successful youth clubs with tens of thousands of members can function worldwide, promoting respect for nature and sympathy for friendship, a government supported organization growing from the education system can be set up to promote civility and citizenship. The most important stakeholders should uplift their say in childcare and recognize the value of the child by paternalistic intervention. Its goal being that by raising children in a certain way – and hence diverting from individual preferences of their traditional careers (parents) – they will once be able to look after public affairs.

This is not propaganda, this is a sound forward-looking long term economic policy recognizing the youth's potential to be assigned the role of the cornerstone of economic development and prosperity. Through carefully tailored nudging at schools and community centers, the youth could start very early with recognizing what public affairs are, how to care for and look after them. This epoch calls for a more elaborate set of rules than telling children not to play with matches. A sentence that lying is not good was never really enough. Basic but stricter rules on how to behave towards each other and care for commons could be passed on until the age of eleven. After that, children are ready to understand and absorb more advanced concepts than they are traditionally shown at schools (see Berti and Bombi, 1988). They could be provided with lessons from modern history and political economy as there is plenty to

learn about catastrophic governance from their elders that were in place to experience the horrors of the late nineties. By the age of fifteen, cherishing democracy should be a given, engaging in civic activities a want, continuing education a need and continuously seeking truth by dialogue a must. By setting the national vision to promote such values through education, and building a functional base of journalists, academics, law-makers, politicians and bureaucrats on them, has the prospects for setting the country on a path towards economic flourishing. Given Kosovo's young population, it would take only two to three times around the compulsory education cycle to build this solid pentagon on which a conscious society could stand firmly. The contemporary demographic bulge allows for this although also functioning as an hourglass that will eventually turn and – given the dropping fertility rates – this time therefore calls for action.

### **Benefiting from an interconnected world while keeping its challenges in mind**

A curriculum for elementary and secondary schooling needs to be coupled with extra-curricular activities such as youth clubs focusing on empowering democratic views, passion for sport and hunger for knowledge. Service learning is practiced through such tandem efforts – having a civic experience after school and reflecting on it the next day. Channeling the wealth stemming from natural resources to such efforts seems to be needed as well as feasible. Another step is to spread the national vision to mobilize the Kosovars residing and working abroad to contribute. The functioning of youth clubs not only acts as an extended branch of schooling, it also prevents future human capital flight through creating firm bonds within the population i.e. gluing society together. If one is to hold a chair position within a civic organization, motives for leaving the country seeking better future abroad have a counterweight. Tertiary education must not be neglected in the light of such efforts. Providing way for residents to attend established and respected universities, the state should start offering scholarships with *return home* clauses. Top performers at a secondary level should be provided access to state funds and guidance allowing them studying at top institutions abroad. Meanwhile, rewarding their teachers must not be neglected as incentives for improving the performance of students should be reciprocal. For an idea on how to design an education evaluation system that stimulates the prosperity of citizens through the quality of education, see Vessman and Hanushek (2007). Reference can be found on historical examples of countries successfully embarking on a similar path of this magnitude, think Israel or Singapore.

The interconnected digitalized world however offers better opportunities for massively acquiring knowledge than it did for Israel, Singapore or the Asian Tigers during the twentieth century. The rise of online learning platforms opened ways of getting a quality degree from one's bedroom or through a local public computer. Establishing a policy for providing basic income conditioned by taking courses online could have the following consequences: increased number of teenagers with a bachelor's or a master's degree; parents getting involved as such endeavors of their children or even their own could improve the family budget considerably, possibly pulling the family above the poverty line; the government could steer the knowledge-base by adjusting the incentives (extending the emphasis of the educational action plan by promoting public policy and history courses, leaning towards STEM education) and modulating them in the future.

A modern approach to education also calls for keeping contemporary efforts for the suppression of its outcomes. Given the rise of ways to disseminate disinformation within a society and a trend of an increasing amount of arsenal held by malicious actors to do so, critical thinking becomes a valuable asset. The sense for questioning one-sided claims that are often sensational and emotionally striking through evaluating facts and valuing truth is a skill that can be developed at an early age. Examples of cross-border opinion influencing through the spread of false information could be found in Metodieva (2019); Bajrović et al. (2018); Cvjetičanin (2019); Brkan et al. (2020) or Stronski (2019). Although developing a comprehensive framework for discerning the impact of misinforming content, junk news etc. on political systems is methodologically challenging and yet to be developed, including topics of digital hygiene and media literacy into curriculum is a way of building social resilience. The misinformation information sphere tends to create an atmosphere of distrust. Here – similarly to the case of corruption – firm public institutions with unshakable credibility and incorruptible bureaucratic base have the power to overwhelm the motives of trust erosion by coming across the social resilience efforts of citizens.

Troubling contemporary concern lays within young Kosovars being currently under pressure with incentives to migrate as they enter the labor market in great numbers. This needs to be a concern for both the private and the public sector, although it does not fall within the focus of this paper.

Undoubtedly, positive impact remittances brought into the economy by Kosovars living abroad exists. According to the findings of Möllers and Meyer (2014), the households whose members left the country finding work opportunities abroad generally improve their budget by a considerable sum every year. Society as a whole hardly benefits from this more



than if those sons and daughters stayed in Kosovo, enhanced their community through improved civic skills and were given a promising work opportunity. Moreover, even if they were all to migrate, their success abroad highly depends on the level of their education (ibid.).

### **Conclusions**

Potentially, there is a major welfare loss stemming from the motivations created by the distribution of raw materials within a resource abundant country. Fine public governance in these countries can however be maintained through making sound decisions concerning the quality of education. The research question has hereby been answered positively.

Findings and ideas presented in this paper point towards education serving as proper means for avoiding poor governance. The power of natural resources pushes against the quality of public institutions as well as the quality and quantity of education. It is, however, the quality of public institutions that makes the vices provoked by natural wealth unsummed. The quality of education serves as a major conjugator for putting sound public institutions in place and sparking economic prosperity through the success of those who have been properly educated.

Through human capital growth, improved civility, and social cohesion, better public decision making could be achieved, keeping politicians accountable for their actions concerning natural wealth as opposed to turning them into marauders. Channeling the wealth stemming from natural resources to the public – primarily through funding education – serves as another possibility.

The goal is to deliver effective governance and the proposed educational action plan gives basic contours to what it involves. Thoroughly tailoring such effort involves a state intervention into childhood. This is nothing new to modern welfare states where governments are already in vast control of many aspects of the early life of individuals. The mechanism involves considering every aspect from nutrition and online learning efforts, through setting up youth clubs and providing incentives for teachers as well as motivating citizens being schooled abroad to return. Once a profound curriculum with clear emphasis on core values, enhancing respect to commons and participatory democracy is in place, long-term welfare gains will arrive alongside positive economic development.

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