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## EDUCATION AND HUMAN CAPITAL: ECONOMIC GROWTH AND SOCIAL COHESION IN MACEDONIA

### Abstract

Economic growth and social cohesion for the Republic of Macedonia as a small economy and young democracy with multiethnic society on its path towards European integration represent very important aspect of successful integration of Macedonia into the European Union. In this context, education plays an important role in society with regards to social cohesion and in terms of economic growth and prosperity. As it seems for the economic growth and the compliance with the criteria for joining the EU, Macedonia should increase the competitiveness of its economy, which primarily implies larger investments in education, research and science, which is expected to enhance innovations, technological development and increase the human capital as important factor of growth taking into account the challenges demographic trends both in terms of migration, and in terms of the age structure of the population.

**Key words:** education, social cohesion, human capital, innovations, economic growth.

**JEL Classification:** I2, J1, O1, O3, O4, F22

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## **Introduction**

Education is the main pillar of society in profiling its citizens, nurturing their values and their well-being. The role of education in maintaining peace and in the improvement of general welfare is argued in several academic and policy discussion. Its transformational power is necessary, especially in transition societies, and is as such a key tool of all state policies for faster and more efficient transformation of societies towards new challenges.

The historical challenge to become a member of the European Union, places the education as one of its top priorities for the Republic of Macedonia, in order to adapt the society to European values and standards, as the key component in the context of social learning. This is also expected to have an impact on social cohesion which is becoming more relevant in multiethnic society as that in Macedonia.

Education, science and research are becoming more important determinants of economic growth in terms of increased competitiveness of the economy, especially important considering the commitment to the membership of the Republic of Macedonia into the European Union, a larger and more developed market with higher competition. In order to cope with competition within the EU market, the competitiveness of the domestic economy should increase through higher productivity, notably by increasing human capital and innovation through investments in education, science and research.

In the context of economic growth, when it comes to human capital, certainly in the analysis special attention should be given to demographic developments, such as migration, Diaspora and the age structure of the population.

## **1. DEMOGRAPHIC DEVELOPMENTS**

### **1.1. Migration**

The characteristics of demographic trends in the Republic of Macedonia were migration trends abroad and internal movements of population from rural to urban places. Migration abroad after World War II until the 1970s was mainly towards Turkey and to the developed coun-

tries, especially in Europe, USA and Australia. Internal migration from villages to cities started with the industrialization of the urban regions during the 1960s and 1970s. Then, the transition period after the 1990s reopen the migration process that has already taken larger dimensions in the context of internal rural-urban and migration abroad (European Commission, 2015).

The trend of the Balkan exodus, according to the Eurostat, reached about 70 thousand asylum applications in 2014, compared to 10 thousand in the period before the visa liberalization. The first in the list is Kosovo with 35 thousand asylum seekers, followed by Serbia, Albania, Bosnia and Herzegovina, Macedonia and Montenegro. Migration from the Balkans in the 1990s were because of the war in the territory of ex-Yugoslavia (especially in Bosnia and Herzegovina and Kosovo), while in the recent years, migration is mainly for social and economic reasons. Emigration of the population apparently remains a challenge in these decades, as well.

Faced with a large number of migrants, in May 2015, the European Union adopted the Agenda for Migration with urgent measures to overcome the current problems, as well as policies to improve the situation of migration (European Commission, 2015). Urgent measures were focused on saving the lives of migrants, fighting crime trading with people, resettlement and resettlement of migrants in various EU Member States based on the principle of solidarity and cooperation with non-EU countries to prevent migration. The long-term measures to improve the situation of migration include: reducing circumstances that stimulates illegal migration; protection of life and securing external borders; strengthening the common asylum policy; and develop a new policy on legal migration.

## **1.2.Diaspora**

Diaspora as a byproduct of migration is an important economic potential that needs to be anchored to our economic ground. Diaspora from Macedonia in 2010, according to a report by the European Committee for Southeast Europe (European Commission, 2012), is estimated to be about 550 thousand immigrants, meaning about 26% of the country's population with permanent or temporary residence abroad. Another assessment of migration (Diaspora) can be done if we calculate the list of

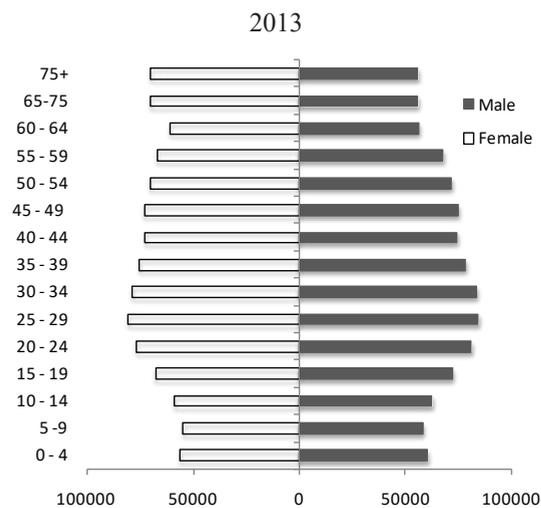
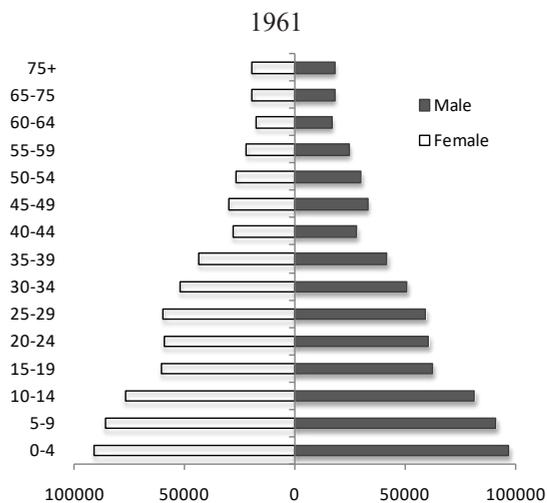
voters in Macedonia, which is 1.8 million people. This is calculated to 2 million inhabitants, where according to the age group over 18, with right to vote, is around 1.5 million, assuming that the lists are cleared, it seems that the difference of about 300 thousand voters is from the Diaspora. Approximately similar estimation for Diaspora can be reach when compared the data from the Health Insurance Fund, according to which 1.8 million people have health insurance, assuming that the rest of 200 thousand persons compared to the general population are in Diaspora. However, the annual statistical data cannot be seen high outflow, namely net emigration of citizens is about 700-1, 000 annually, while the balance turns positive given the immigration of foreign nationals.

It is a structural loss of labor. However, the Diaspora has played and continues to play an important role in our economy. Remittances proved to be a stable factor in the balance of payments over the period of economic transition in Macedonia. Private transfers, which include remittances from the last decade ranged around 13% to 21% of GDP with only remittances exceed a value of one billion euros of foreign exchange inflows in the economy, which are higher compared to foreign direct investment inflow (NBRM, 2015).

### **1.3. Age structure**

People as a resource for development remains a particular challenge in this century of global aging population. Demographic pyramid according to the age-structure of the XXI century apparently flipped up-down - from stable pyramid with a solid foundation, it became a demographic vortex (Figure 1). In Europe in 2012 were about 18% of its population over age 65, while 2050 is expected to reach 28%. Considering the level of development, the population over age 65 in developed countries reaches 23% in developing countries is 9% and in countries with weaker growth is 5%. Macedonian population over 65 years of age in 2013 was 12%, which represents an increase compared with 2002 when it was 10.5% (United Nations, 2013). The same can be said and seen by the average age of the population in Macedonia, which currently is 35-37 years old thus being still younger compared to the EU (about 40-43 years of age).

**Figure 1. Population structure by major age groups in Macedonia**



Source: State Statistical Office, R. Macedonia

If we look at the age structure of population in Macedonia in 2012, it is as follows: 0-14 (17.1%), 15-64 years (71.0%) and 65+ (11.9%) and can be noticed an ageing trend compared to 2002 when the corresponding age structure was 21.1%, 68.3% and 10.6%. Important news from the economic aspect is the fact that it has increased the portion of the working population to 71% and it can affect economic growth if we can create more jobs, it will also generate more public revenue that could be used for investments in education and science, youth and adults, social security and pensions for the elderly.

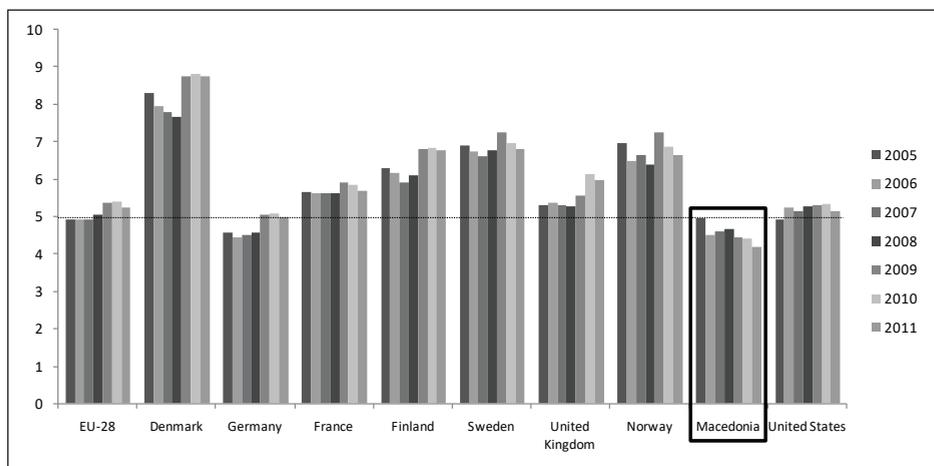
## **2. EDUCATION, HUMAN CAPITAL AND INNOVATIONS AS A FACTOR OF ECONOMIC GROWTH**

### **2.1. Education**

Following the experience of developed countries the response to demographic challenges seems to be investment in people and creation of human capital! The creation of human capital will boost the growth potential of the economy across the demographic challenges of migration flows and the ageing of population. Knowledge-based economy implies that investments in education and science, innovation and increased economic productivity! Following this, we will do a short comparative analysis of the statistical data for Macedonia and selected EU member states.

Investments in education in the EU-28 is at a level of 5% to 5.5% in the last five years and in Macedonia about 4% of GDP. By comparison, in the Scandinavian countries (Denmark, Sweden, Norway and Finland) invested over 7% of GDP (Figure 2). So, we have a relatively low investments in education compared to the EU, and that becomes more obvious when we consider that our GDP per capita is only 36% of the EU average. The situation is similar if we analyze investments according to the number of students in Macedonia, that on average invest about 1, 000 euros per pupil /student per year from the state budget, which is about 1/3 of it is invested in Europe (compared to GDP PPS - purchasing power standards).

**Figure 2. Public expenditure on education (% of GDP)**

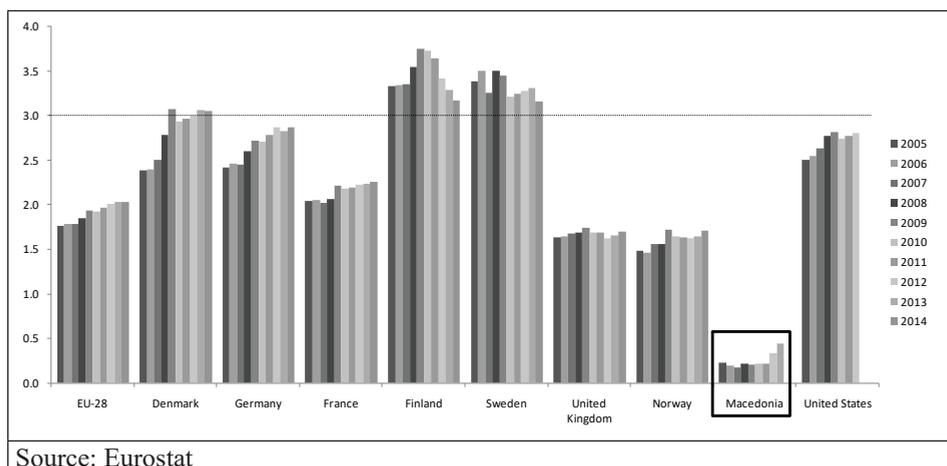


Source: Eurostat (Macedonia data are 2009-2015, State Statistical Office, RM)

## 2.2. Innovations, research and development

Taking into consideration the role of research and innovation for economic growth, we may draw the suggestion that investment in research and innovation should also be increased in order to increase the competitiveness in the domestic economy. This we can rely on the evidence from the EU-28 and selected EU member states (Figure 3). By comparison, in the EU-28 investments in research and development is about 2% of GDP and is expected to reach 3% by 2020, while in Macedonia currently have only 0.2% of GDP.

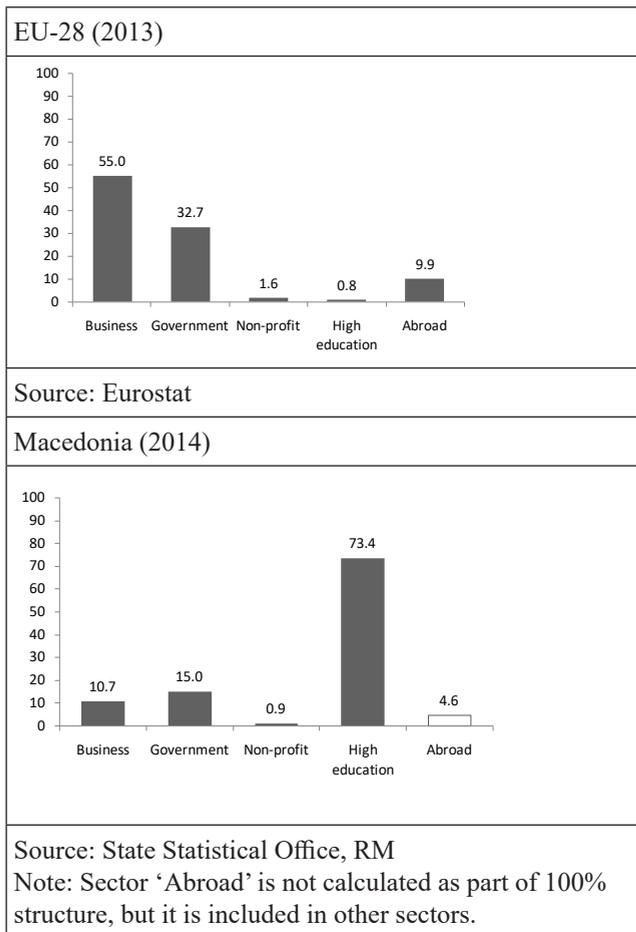
**Figure 3. Investments in research and development (as % of GDP)**



Source: Eurostat

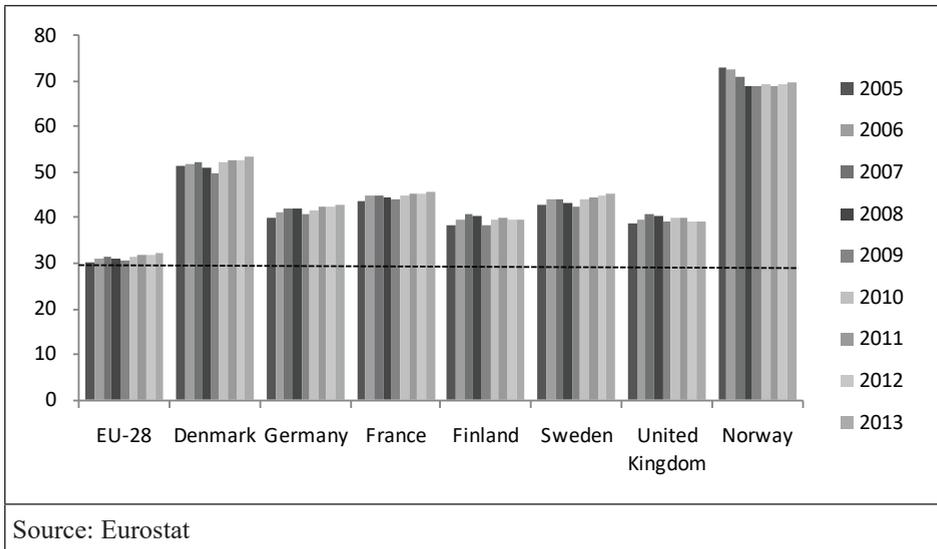
We need to highlight that most of this anyway small size of investments in research and innovation in Macedonia is provided from public sources (88.4%). The private sector, which is intended to be the largest investor in scientific research and innovation amounts to 10.7%. Of the total amount, 4.6% are financed from abroad. Compared to the EU, the private sector accounts for 55% and sources from abroad are about 9.9% (Figure 4).

**Fig.4 Structure of expenditures in R&D by sectors**



In order to be competitive in the European market, Macedonia needs to increase the productivity of labor, which according to current estimates is equal to 1/3 of the EU average, where productivity is valued over 32 euros/hour. Also worth to underline is that, the Scandinavia where investments in education and science are higher, performs higher productivity, valued at 50 to 70 euros per hour (Figure 5). According to the World Economic Forum in 2015, as regards human capital, Macedonia is ranked in 55 place out of 124 countries in the world (ranked in the region after Croatia and Serbia). According to the same report, globally, the Nordic countries are ranked in the top 10 countries (Finland in the first place).

**Fig.5 Labour productivity (Euro per hour worked; index 2005=100)**



If we compare the data from the end of 2014 of the labour market in Macedonia, we will see that from 1, 676, 198 capable of working over 15 years, according the law 1, 463, 524 may be permanently employed (15-64 years old), while the labor force is 961, 416 people actively seeking work. Of these employed are 696, 046 (41.6%) and unemployed 265, 370 (27.6%), of which 45, 240 were aged 15-24 years (where unemployment reaches 50.4%). Retirees are around 292, 500 (of which 76, 350 are family pensions). So, seven employees hold three pensioners and every second young person is unemployed in an economy with labor productivity below the European average. This is another potential pressure for

emigration adding here and political context and the challenges in the Euro-Atlantic perspective of our country. Therefore an increase of labour productivity, investment in science and research is a precondition for creating human capital and increasing the competitiveness of domestic economy which is also important in the context of higher economic growth and integration into the European economy.

### **3. EDUCATION, SOCIAL COHESION AND EUROPEANIZATION**

#### **3.1. Critical learning and social cohesion**

Critical learning has proven to be the most appropriate methodology that provides the most suitable space for accommodating various innovative open concepts and ideas in children. As such, it is not easy to practice and represents an even greater obstacle for teachers who are not ready for this pedagogical approach.

This approach becomes even more important in mixed societies, where modalities and values should be encouraged and cultivated with the purpose of strengthening social cohesion. In Macedonia, in spite of the “significant development of the education system in the past decade, in regards to education in the mother tongue, events are developing in a direction that should be given attention to and corrected, in order to avoid a greater ethnic distancing”, as is stated in the Strategy for Integrated Education (2008). In these conditions, it is no coincidence that there are shortcomings in the promotion of tolerance, mutual understanding, dialogue, etc. In the Republic of Macedonia this is shown through inappropriate curricula, inadequate schoolbooks, especially on subjects important for social cohesion, low level of knowledge about each other, high level of prejudice and stereotypes that result in the creation of parallel worlds and a fragmented society.

In Macedonia there is good basis for an integrated approach to education. The Ohrid Framework Agreement established a series of legal instruments that enables the strengthening of internal cohesion. However, there still exists an evident need to find new mechanisms that will enable the implementation of policies in the direction of increased interethnic integration in education. Supporting critical thinking and values that facilitate social cohesion is the first step in this direction. Qualitative reforms, which are needed for the improvement of social cohesion, are important from the wider aspect and Europeanization of the society (EIP, 2015).

Although there are different instruments in the European Union for the Europeanization of the education system in Macedonia, such as TEMPUS, Erasmus programs, BASILEUS, Comenius program for primary education, Leonardo da Vinci vocational education program, we must think of more profound and structured reforms specific for the context of Macedonia.

### **3.2. Challenges in education towards its Europeanization**

The potential of education as an important pillar in helping fragmented multiethnic societies, is documented and promoted as a conflict resolution tool by the OSCE in the documents known as the Hague recommendations, Ljubljana Guidelines, etc. One of the reasons why the Republic of Macedonia is lagging in overcoming this situation is the fact that the education system is constantly focused on ethnic political agendas, and it constantly ignores the importance of civic and critical education.

Civic education in the Macedonian context is not only learning the necessary knowledge and skills for autonomy of the individual, but should also be aimed at instilling habits and values in children that a citizen of a democratic society should possess (Brighouse 1998: 722), which is the claim of sociologist Gutmann (1999). This is important in the Macedonian context due to two reasons. Firstly, it will promote the equality of citizens, and in the frames of this model, by manners of study that promote critical thinking, all students will be encouraged to build their own personalities, and secondly, it will promote values necessary for democratic citizenship such as tolerance, understanding, dialogue and compromise, which are values that are closely related to what we frequently name as European values. However, these values become even more important if analyzed from the aspect of the need for social learning.

### **3.3. Education as the starting point of social learning**

A European Union approach was initiated in Macedonia through conflict management. According to Tocci (2007) this framework is based on three pillars: conditionality, social learning and passive enforcement. In this paper, we will focus on social learning, where the potential of education is highest.

Social learning in the literature on Europeanization is mentioned and introduced in an institutional sense. In Tocci's social learning frame-

work, it represent what Checkel defines as “‘complex learning’ (1999: 90), which is a process when in the absence of clear motivating materials, actors get new values, norms and benefits as a result of the close (*ibid.*) institutional interaction with the EU (Katzenstein 2006: 21)” (Pollozhani, 2012: 12). This social learning is a collection of norms and values that can facilitate the EU integration of the country, even in the absence of material motivation, as a result of the contact between institutions and the transfer of values and interests. According to Tocci, in such circumstances actors can change their behavior and their norms and thus become more adaptable, that is more ready for “negotiations and compromise and towards international law instead of unilateralism” (Tocci, 2007: 15).

However, there are questions on “how to realize social learning” or “how, in conditions of lack of sufficient understanding of this context, can such learning occur, bearing in mind that it is developed through long term contacts with institutions” (Pollozhani, 2012: 12). This process is still not happening in Macedonia, at least not in the necessary and expected measure. Because social learning is a result of direct contact between institutions, education is not the main subject for research, but this brief study presents the argument that they are essentially interconnected. Civil oriented education can facilitate dialogue and compromise, which are necessary in the contact with EU institutions. Considering that the Macedonian education system is evaluated as rather rigid, the expected norms and beliefs that should facilitate social learning are not present. Consequently, it is almost impossible that social learning becomes a component and important part of the process of Macedonia’s EU integration. Additionally, the lack of a system that motivates social learning can be a problem in future. Taking into consideration that integration, in accordance with EU norms, is a lengthy process that continues even after accession, it is important to create the fundamentals for social learning to occur. Investing in civic education could serve this purpose, because through this education all future actors can be informed from the earliest age about the norms and values that can facilitate contact with EU institutions.

Each country has its own various particularities which derive from their historical, cultural, economic and geographic context. Adapting these differences to European norms and values is a difficult and painstaking process. In this context, this process is especially particular for countries characterized with by ethnic and cultural specifics, i.e. for multiethnic and multicultural societies. In such circumstances, integration, mutual under-

standing and compromise are both an internal need and a precondition for EU integration. Aware of the difficulties on this road, various recommendations and resolutions have been designed to facilitate this process. One of the most relevant is contained in the Ljubljana Guidelines: “In the context of integration of societies with differences, individuals and/or groups can reach acceptable solutions to all issues they face through negotiation and mutual accommodation. The outcomes of negotiation are likely to be more sustainable and thus better contribute to lasting stability when both majorities and minorities are willing to accommodate the claims of the other parties to the extent possible.” (Ljubljana Guidelines: 19).

### **3.4. Modalities of social learning in the education**

Considering the context of social learning and the shortcomings identified in the analyses of the educational policies in RM, with the aim to build concrete support of the process of integration with necessary substantial elements, education policies (reforms) must be aimed not only at the quantitative, but also the qualitative elements. This means reforming the education system towards innovative methods that encourage critical and civic thinking. Foremost, reforms must take into account the interest of the child, and his or her future. Herein, critical thought is very important, because it enables children to think as autonomous individuals and citizens, and not as part of an ethnic or socioeconomic group. This would enable children to learn openly with one another and not to be limited only to the knowledge based on books, but to be encouraged to practice their knowledge. This environment would enable a system in which compromise; universal values and tolerance are an integral and inseparable part. This is the way to achieve socioeconomic and citizen equality in a multi-ethnic and multicultural environment.

### **Conclusion**

Economic growth and social cohesion for the Republic of Macedonia as a small economy and young democracy with multiethnic society on its path towards European integration represent very important aspect of successful integration of Macedonia into the European Union.

In terms of economic growth, we may suggest that education, research and innovations play significant role as presented from the evi-

dence in EU-28 average, as well as the selected individual countries from the EU. In this context, education plays an important role in society with regards to social cohesion and in terms of economic growth and prosperity. As it seems for the economic growth and the compliance with the criteria for joining the EU, Macedonia should increase the competitiveness of its economy, which primarily implies larger investments in education and science, research and development, which is expected to enhance innovations and increase the human capital as important factor of growth taking into account the challenges demographic trends both in terms of migration, and in terms of the age structure of the population. In conclusion, we may say, investing in education and science, increases productivity, create high-quality personnel for a competitive economy and thus the creating new jobs opportunities for young people and opportunities for returning of Diaspora with capital investment - all this in a function of faster economic growth based on knowledge and competitiveness.

In terms of social cohesion and Europeanization, education represents the pillar of the integrated society. Macedonia, a country in which integration and social cohesion are still imperfect, and which is determined to be a part of the European Union, needs innovative reforms in order to achieve these two goals. Critical learning and civic education would enable Macedonian citizens to overcome ethnic and socioeconomic divisions and prepare them for their future role in society and in the institutions as responsible citizens. Competent and open citizens possessing knowledge and skills and convinced in the need for dialogue, compromise, and tolerance would help the country progress towards and into the European Union. Social learning, an important component for Europeanization of the country, can only function in an environment where institutions are open and used to compromise and debate. Without these preconditions, the more profound and important EU reforms, even if contained in the laws, will not be able to be implemented to the desired extent. Education is the key in having institutions and citizens capable of showing and implementing values and practices on the road to the EU. Further, in order to improve the quality of education, Macedonia will have to make steps towards innovative and qualitative reforms with the aim of supporting the development of equal and competent citizens.

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