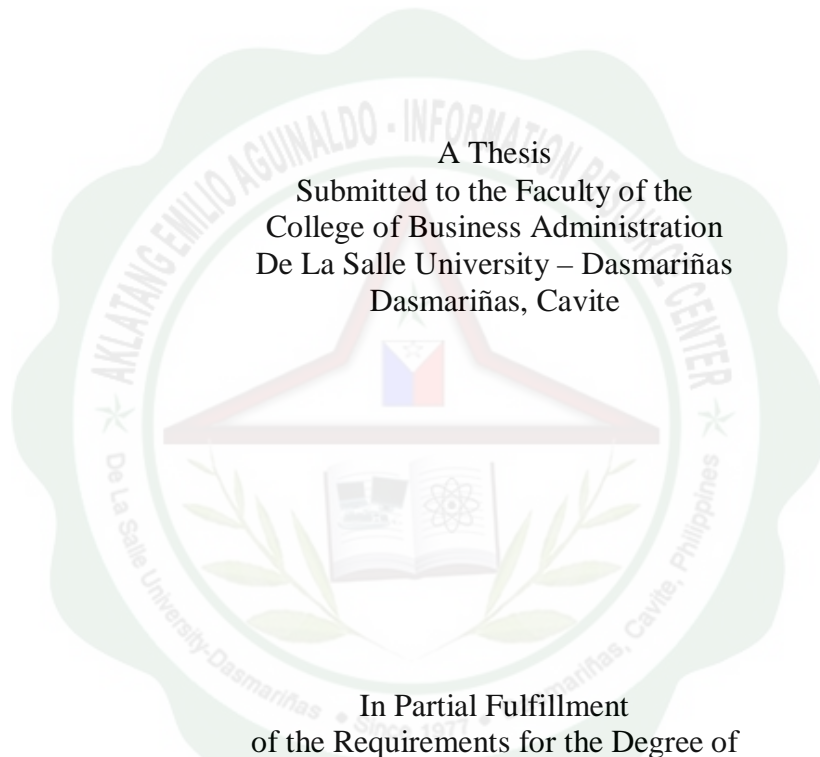




De La Salle University – Dasmariñas

**PUBLIC SECTOR EXPENDITURE ON HUMAN CAPITAL  
INVESTMENT AND ITS EFFECT ON THE  
PHILIPPINE ECONOMIC GROWTH**

A Thesis  
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## ABSTRACT

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The study aimed to determine the public sector expenditure on human capital investment and its effect on the Philippine economic growth. Specifically, it aimed to (a) discuss the state of Philippine health and education; (b) determine the government investment on human capital; and (c) analyze how public sector expenditure on health and education affect the Philippine economic growth.

The data from 1981-2006 for the school enrollment as percentage of schooling age population, number of public schools, number of public health professionals, number of public hospitals, public expenditures on education and health, and the real gross domestic product were presented. Data on student enrollment and number of public schools were gathered from the Department of Education and the Commission on Higher Education; the schooling age population were from the National Statistics Office; the number of public health professionals and hospitals were both from the Department of Health; public expenditure on education and health were obtained from the Department of Budget and Management; while the real gross domestic product was from the International Monetary Fund database.

To illustrate the movement of the variables trend analysis and descriptive method were utilized. Multiple regression analysis was used to generally analyze the



effect of public sector expenditure on human capital investments and on the economic growth of the country.

Enrollment as percentage of schooling age population in the elementary level was decreasing since SY 1999-2000. Secondary enrollment and tertiary enrollment were also falling during SY 2003-2004 and SY 2002-2006. This means that large number of students dropped out from school. The fall in the percentage of enrollment would hinder the growth of the country. There are many public schools that exist to accommodate everyone especially the poor. It suggests a better productivity of the educated workforce.

Figures on midwives and dentists in the Philippines are increasing for the period 1981-2006. On the contrary, number of nurses and doctors has a downward trend after 1992 and 1989 respectively. This threatens the quality of the Philippine health system. It also leaves only an insufficient professionals looking after the needs of its large population. This even forced the closure of hospitals. With the hospitals being closed now, there would be no place for the people to go.

The annual public sector expenditure on education as percentage of total expenditures has an increasing trend until 1997 then decreasing from 1997 to 2006. On the other hand, expenditure on health as percentage of total has been decreasing since 1981. The increased expenditure was just a very small part of the total expenditures of the government and it is allocated to other expenditures, including debt service and on the subsidy to local government units.

The result of the regression showed that public expenditures on education and health as percentage of total public sector expenditure significantly affect the Philippine economic growth. Share of education expenditure positively affects real GDP. Thus, as share of education expenditure increases, real GDP will also increase. However, it appeared that share of health expenditures negatively affects real GDP. As health expenditure increases real GDP will decrease.

The study recommends the increase in the share of education expenditure to total public expenditure to promote the general welfare of the people. Expenditure cuts on nonhuman capital investment items in the public sector budget can be used as an approach to public sector financing of investment on human capital. Improvements in tax collection and introduction of new tax measures are also ways in generating income for public use. Property and business taxes can be a useful source of added income to support the objective of better quality public education. Excise taxes can also be imposed and raised over time for liquor, cigarettes, and motor vehicles.



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