

Is Higher Education a Risky Investment for Developing Economies? An Analysis from Economic Perspective

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Abstract: Conventionally, higher education is viewed as an investment in human capital since it yields positive returns in future. This viewpoint assumes certainty in outcomes. This paper analyses higher education as a risk-bearing economic decision, especially for students from economically backward sections of society. The study is purely qualitative and descriptive in nature. The analysis explores how investment in higher education is viewed with risk and uncertainty in developing countries as well as the underlying socio-economic constraints that elevate educational risk. The findings suggest that while education may yield returns in future, but for some it remains an uncertain investment. Further, the paper highlights the need for effective policy decisions that treat higher education as a societal benefit.

Keywords: Higher Education, risk, uncertainty, human capital theory, human resource, opportunity cost

I. INTRODUCTION

Education is seen to be the most crucial pillar of every society. Through education one can achieve both personal growth as well as bring positive impact to society. In this line education can be viewed as an investment in human capital since it provides returns in future in the form of human resource or skilled personnel. However, in this contemporary era continuing higher education could sometimes be a risky investment for the students from economically vulnerable sections in the sense that it involves financial risk, employment uncertainty, opportunity cost, etc.

The classical and contemporary theories of economics of education sometimes have a contradictory outcomes. While most classical theories view education as an investment for future, but most contemporary empirical findings deviate from this outcome.

The fundamental human capital theory of Gary S. Becker conceptualizes education as an investment in human capital since it produces substantial rate of return to the people directly involved in the form of increased earnings (Becker, G. S. (1964). Other studies on higher education also suggests a similar positive return in the future. Kasnauskiene, G. et al. (2025) finds a positive influence of investment in education in both individual earnings and society at large. They found that an additional year spent in education increases future earnings by 4.1% on average.

While, study by Agarwal, P. (2006) concludes that higher education in India suffers from several deficiencies, as a result it continue to produce graduates without having potential employability skills despite the shortage of manpower in many sectors. Some of the underlying problems of the higher education in India according to him are - unhandy affiliation system, inflexible academic structure, uneven capacity across various subjects, low level of public funding, etc. Sharma, V. (2007) raised the point of globalization being the devastating factor on developing economies since the problems of unemployment, inequality and poverty have increased to a great extent. More private institutions of higher education are established without having to look upon quality, funding, equity and access. On a similar note, Tilak, J. BG. (2008) studied the transition of higher education from being a public good to a private good in India. According to him, the introduction of neo-liberal policies in 1990s has shifted education from public approach in the sense that welfare approach is forgotten and profit seeking private sector has gained momentum. Indeed this has serious repercussions for the economy relating to quality, equity and access in education.

Understanding whether investment in higher education involves a risk factor for the socially weaker sections in developing countries will be beneficial for policy makers, institutions as well as government.

II. OBJECTIVES OF THE STUDY

The study aims to explore the following objectives:

1. To explore how risk, uncertainty and imperfect markets affect future returns to higher education.
2. To examine the key socio-economic constraints that make higher education a risky investment for the disadvantaged groups.

III. METHODOLOGY

This study is qualitative, theoretical and descriptive in nature. Existing literatures were critically reviewed and other secondary sources were utilized including peer-reviewed journals, books on development economics, education economics, and relevant policy reports related to education economics. Sources were selected on the basis of its relevance within the field of economics. The analysis focused on identifying the root causes as to why higher education is considered a risky investment in developing nations in the contemporary era.

IV. FINDINGS

It has been found that higher education depicts the key characteristics of a risky investment when viewed under conditions of uncertainty. At the time of investment or enrollment in higher education, students tend to remain confused whether suitable employment opportunities will materialize. This uncertainty arises because of unpredictability in labor market, macroeconomic conditions, etc. due to which the same investments in education by different individuals may produce different outcomes. For instance, in the age of AI, some jobs require knowledge in machine learning, data science and handling of statistical softwares. Therefore proper counselling in educational institutions are required in the initial phases so that every students achieve positive returns in future.

Again, delayed labor market entry, debt burden, and other related factors puts strain on some individuals leading them to accept the notion that education is a risky investment. Moreover, in the anticipation of remaining unemployed in future, most students do not approach credit institutions for educational loans. This is due to the absence of insurance markets to insure students against unemployment after higher studies.

Furthermore, it has been found that students from economically backward sections in developing countries face a number of challenges due to which they view investment in education as a risk. There is an underlying opportunity cost for them, if they study further they cannot contribute to household earnings whereas if they enter labor market they can support household survival. While students from wealthy backgrounds can cover losses if education does not yield expected returns, but socially disadvantaged students cannot cover the losses due to which education for them becomes a risky investment.

V. RECOMMENDATIONS

Following recommendations are suggested based on the findings:

1. To incorporate the risk factor into educational policy.
2. To make the education system job oriented.
3. To develop some targeted policy support measures for economically disadvantaged students.

VI. CONCLUSION

To conclude, higher education is seen as risky investment by socially weaker sections of society since it does not yield predictable and positive returns for all. High opportunity costs, financial constraints and limited recovery options from failure deepens economic vulnerability rather than reducing it. Thus the study contributes to more refined understanding of educational decision makings in developing countries.

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