Schooling and Labor Market Consequences of School Construction in Indonesia: Evidence from an Unusual Policy Experiment

Between 1973 and 1978, the Indonesian Government constructed over 61,000 primary schools throughout the country. This is one of the largest school construction programs on record. I evaluate the effect of this program on education and wages by combining differences across regions in the number of schools constructed with differences across cohorts induced by the timing of the program. The estimates suggest that the construction of primary schools led to an increase in education and earnings. Children ages 2 to 6 in 1974 received 0.12 to 0.19 more years of education for each school constructed per 1,000 children in their region of birth. Using the variations in schooling generated by this policy as instrumental variables for the impact of education on wages generates estimates of economic returns to education ranging from 6.8 percent to 10.6 percent.

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