



The Effect of the Increase in Oil Revenue on Government Expenditures on Education in Saudi Arabia

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Abstract

This study takes on the relationship between oil revenue and government expenditures on education in the country of Saudi Arabia during the period of 1975-2007. The study tried to find out if the fast increase in oil revenue caused a similar increase in government expenditures on education during the above period. The study used linear regression analyses between oil revenue on one hand and Saudi budget expenditures on education the other hand. Oil revenue was the independent variable in the linear regression analyses and the government expenditures on education was the dependent variables. The findings of the study suggest there is a valid positive relationship between oil revenue and government expenditures on education in Saudi Arabia during the period of 1975-2007. The study concluded that the increase in oil revenue in the this period had lead to a relatively strong increase in education expenditures. The study also concluded that this increase was getting stronger with time.

Keywords: Oil revenue, Education, Saudi Arabia, Government Expenditure.

Introduction

Saudi Arabia, the largest oil exporter in the world, depends heavily on oil revenue to achieve economic development and to bring about prosperity to its citizens. Studies done in the past about Saudi Arabia looked at the impact of the increase in oil revenue on government expenditures and on the economy as a whole like the study done by Al-Yousif (2008) which investigated the relationship between the Saudi oil revenue, government expenditures and growth in the economy. However, This study specifically looked at the effects of the increase in oil revenue on a specific government expenditures which is education. So, the importance of the study stems from the lack of a documented quantitative study on this topic.

Literature Review

Recent research showed that most of the oil revenue Saudi Arabia generates is going for reinvestment in the oil sector, paying off debt or for buying new weapons. A small percentage of

oil revenue is being spent to improve healthcare or education. McNeal (2006) stated that even though Saudi Arabia has a huge amount of natural resources, the country's living standards have been witnessing a steady decline due to corruption and mismanagement of the resources. He also pointed out to the failure of Saudi Arabia to invest more to improve its educational system which is still poor and lacks any real performance measurement and innovation. Rugh (2002) mentioned that not enough being spent on education by the Saudi government which is trying to meet the projected very high demand on skilled and professional workers due to the "Saudization" effort the government is pursuing. Prokop (2003) also believed that more expenditures are needed to improve education in Saudi Arabia and he blamed the weak education system as the reason for not having enough skilled workforce and saw a huge gap between the education results or output and the needs of the economy.

Methodology

The purpose of this study is to investigate the relationship between Saudi oil revenue and government expenditures on education. The study used secondary data from several sources including existing databases and websites. Data needed for this study consists of two types of data. First, Saudi oil revenue amounts for the period of the study 1975-2007 were collected from OPEC Annual Statistical Bulletins for the year 1975 and the year 2007. Second, Saudi budget expenditures on education for the same period were gathered from the Europa World Yearbooks 1975-2007; the Saudi Ministry of Education website; the Saudi Ministry of Finance website; and the International Monetary Fund (IMF) website. To analyze this data, the study used simple linear regression analyses between oil revenue on one hand and Saudi budget expenditures on education on the other hand. First, regression analysis were performed for the whole time of 1975-2007, then, regression analysis were performed on the data after it was split into three time intervals: 1975-1985, 1986-1996, and 1997-2007, to point out to the trend in the relationship. Oil revenue was the independent variable in the linear regression analyses and the government expenditures on education was the dependent variables.

Results

Findings showed that in the period of 1975-2007, on top of the average annual 3.7 billion dollars budget allocation to education, each one dollar increase in oil revenue was accompanied by almost 9 cents increase to education expenditures. The findings also showed that between 1975 and 1985, each increase of one dollar in oil revenue was accompanied by less than one cent (.0074) increase in education expenditures. While between 1986 and 1996 a one dollar increase in oil revenue accompanied by more than 5 cents (.0513) increase in education expenditures. Moreover, between 1997 and 2007 the increase of one dollar in oil revenue accompanied by almost 8 cents (.0783) increase in education expenditures. The findings of the study also showed that, regardless of the increase in oil revenue, the government expenditures on education had increased from an average of \$5,203.79 million per year in the period of (1975-1985) to an average of \$5,281.29 million per year in the period of (1986-1996) and to an average of \$7,816.34 million per year in the period of (1997-2007).

Discussion of Results and Findings

The results of the study showed that the increase in oil revenue between 1975 and 2007 had led to a relatively strong increase in education and human resource development expenditures. The results also showed that the relationship between oil revenue and education expenditures was getting stronger and education expenditures had been increasing more as a result of the increase in oil revenue over time.

Conclusion

The rapid increase in oil revenue of the country of Saudi Arabia in the period of 1975-2007 resulted in a substantial increase on spending on education. The increased Saudi government spending on education reflects the increasing emphasis the Saudi government had placed on improving education in the country, especially in the last decade or more, to provide the needed workforce for the increasing demand of skilled labor and to implement its “Saudization” policy of replacing foreign skilled labor force with a domestic one.

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