

MERIDIAN EDUCATION

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Vietnam plastic-bag policy commentary | Key concept: Efficiency

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- Negative externalities and demerit goods
- Indirect tax incidence and allocative efficiency
- Stakeholder evaluation and policy alternatives

Commentary 1

Title of the article: ‘Consumption tax proposed as Vietnam struggles to fight plastic bag use’

Source of the article: VNExpress International
<https://e.vnexpress.net/news/news/consumption-tax-proposed-as-vietnam-struggles-to-fight-plastic-bag-use-4012780.html>

Date the article was published: November 15, 2019

Date the commentary was written: October 28, 2020

Word count of the commentary: 786

Unit of the syllabus to which the article relates:
Microeconomics

Key concept being used: Efficiency

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Consumption tax proposed as Vietnam struggles to fight plastic bag use

Minh Minh

VNEXPRESS International

November 15, 2019 / 03:37 pm

Plastic bags should be made more expensive so that people can be dissuaded from using them, a deputy minister has proposed.

The highest tax rate for single-use plastic bags is VND50,000 (around \$2) per kilo and "that's not enough," said Deputy Minister of Environment and Natural Resources Vo Tuan Nhan.

The ministry estimated that each Vietnamese family consumes five to seven plastic bags per day.

"This is because plastic bags are not only convenient but really cheap," Nhan said at a conference on Thursday in Hanoi.

"At any wet market in Vietnam, we can see that even before buyers ask for it, vendors have already purchased goods in a plastic bag. And in many cases, that will go into a bigger plastic bag and in the end several plastic bags go into an even bigger one. Finally, buyers take home products wrapped in plastic inside plastic."

According to the Food and Agriculture Organization, Vietnam discards over 1.8 million tons of plastic waste but just 27 percent is recycled.

Ranked fourth in the list of nations dumping plastic waste in the ocean by the United Nations Environment Program, the nation generates around 2,500 tons of plastic waste daily.

Each Vietnamese person consumed only 3.8 kg of plastic in 1990, but 28 years later, this had risen to 41.3 kg, according to a report released in September by Ipsos Business Consulting, a global growth strategy consulting firm based in Paris.

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Nhan said: "If we fail to control the consumption of plastic products in general and plastic bags in particular, it will become a threat to stable development and affect human health."

"Even when the rising use of plastics is linked to economic development, it cannot make up for environment pollution and the damage that Vietnam's image will suffer in the international community," the deputy minister said.

Nhan noted it was necessary to change consumer's habits and suggested a consumption tax on plastic bags. He did not elaborate, but added the tax by itself would not solve the problem.

Other campaigns were needed alongside bold steps to limit the use of plastics, including a possible ban on all persistent plastics and disposable plastic bags and heavy tariffs imposed on companies creating large amount of plastic.

"...Producers will have to look for greener solutions to replace plastics," he said.

Nhan's ministry will continue to look at suitable policies and regulations to encourage consumers to limit the use of plastics.

Preferential treatments such as tax exemption for producers making environmentally friendly products should be considered, he said.

Southeast Asian countries, among the world's worst ocean polluters, need tougher regulations on plastic packaging, the United Nations Environment Program (UNEP) said in a report Wednesday.

Southeast Asia, home to 641 million people across 10 countries, needs to introduce region-wide policies to regulate plastic packaging, it said.

Vietnam has so far this year taken several measures to tackle its plastic problem.

Prime Minister Nguyen Xuan Phuc launched a campaign to fight against plastic waste in June with targets to achieve zero disposable plastic use in urban shops, markets and supermarkets by 2021 and extend it nationwide by 2025.

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Last month, the nation's economic hub Ho Chi Minh City ordered all supermarkets, shopping malls, convenience stores and bookstores to replace plastic bags with environmentally friendly options by 2020.

Tourism hotspot ancient town Hoi An has begun restricting the use of single-use plastic items and plastic bags. By the end of 2021, plastic bags and other single-use plastic items will not be used in traditional markets and supermarkets in the town.

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Single-use plastic bags are demerit goods in which a demerit good is defined as a good that creates negative impacts on its consumer¹, with its consumers mostly not knowing or ignoring the harmful consequences. Generally, a demerit good emits negative effects on the third party, referred to as negative externalities. In this context, the consumption of single-use plastic bags contributes to increased oil extraction for manufacturing plastic (*constitutes for increased GHG emissions, and oil leakage pollution to surrounding environments*), and increases the amount of litter (*risks for potential flooding, and formation of microplastics*). Thus, the market for single-use plastic bags in Vietnam is a paradigm of how negative externalities creates a market failure as the market only accounts for the marginal private cost without achieving the marginal social cost. To tackle this issue, the Vietnamese government is planning to implement indirect taxes to reduce the overall plastic consumption and fulfill the marginal social cost, which refers to the total cost the society must spend in the production of another unit of the good², in order to achieve allocative **efficiency** (maximizing the social surplus through best possible resource allocation).

¹ Pettinger, Tejvan. "Demerit Good Definition." *Economics Help*, www.economicshelp.org/blog/glossary/demerit-goods/.

² Kenton, Will. "Marginal Social Cost (MSC)." *Investopedia*, Investopedia, 14 Dec. 2020, [www.investopedia.com/terms/m/marginalsocialcost.asp#:~:text=Marginal%20social%20cost%20\(MSC\)%20is,further%20action%20in%20the%20economy.](https://www.investopedia.com/terms/m/marginalsocialcost.asp#:~:text=Marginal%20social%20cost%20(MSC)%20is,further%20action%20in%20the%20economy.)

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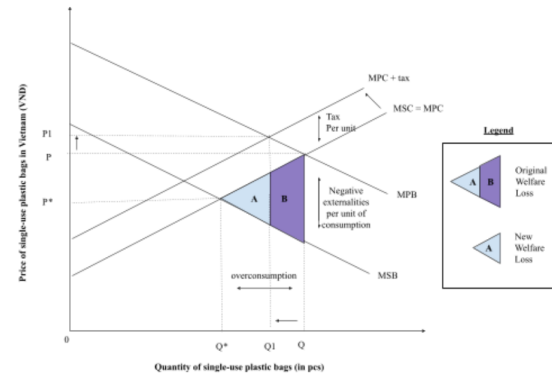


Figure 1: Consumption tax imposition on single-use plastic bags in Vietnam

The figure above depicts an integrated indirect tax and negative externality graph. Firstly, this graph shows that a tax on the supply of single-use plastic bags will result in ‘MPC’ shifting to ‘MPC + tax’. This movement will also spark a new value for quantity demanded, in which will move from ‘Q’ to ‘Q1’. As illustrated, the distance between Q* and Q signifies overconsumption and this movement will have the ability to shorten the distance, thus decreasing overconsumption. The elimination of this overconsumption will also result in less deadweight welfare loss from A+B to A, moving closer to achieving allocative **efficiency**. Further, the taxes will result in an increase in government revenue, as signified in VND $[(P1-P) \times Q1]$.

The implementation of the indirect tax policy on single-use plastic bags has an array of advantages and disadvantages. First, this policy will result in the reduction of real income of individuals which will lead to lower living standards, and seeing that Vietnamese citizens generally have low living standards³, it will worsen it. Subsequently, this will also constitute for

³ “Nguyen, Dat. “9 Million Vietnamese People Still Living in Extreme Poverty: Report - VnExpress International.” *VnExpress International*. Latest News, Business, Travel and Analysis from Vietnam. VnExpress International, 7 Apr. 2018. e.vnexpress.net/news/news/9-million-vietnamese-people-still-living-in-extreme-poverty-report-3733087.html.”

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the rise in income inequality. As indirect taxes are considered to be regressive taxes (i.e. tax being applied uniformly), it will take a lower percentage income from high-income individuals than low-income individuals which will again negatively contribute to already widening income inequality⁴. However, due to the inelastic nature of single-use plastics as caused by their very-low costs and convenience, there will be a greater tax burden on the consumers rather than the producers.

In contrast to its goal, it may also push the emergence of a black market to supply single-use plastic bags with lower costs. Furthermore, this policy will impact SMEs substantially as they will experience difficulty in finding alternatives due to lack of funds to research other options and purchasing more expensive alternatives, thus also reducing their revenues.

Nevertheless, this policy also brings about significant positive impacts. Principally, this tax policy will add to government revenue. And, seeing that the demand is quite inelastic, collected government revenue will have a huge increase as individuals still consume the product heavily due to their reliance. Secondly, this policy may also reduce the overall consumption of single-use plastic bags due to their higher prices resulting in allocative **efficiency**.

To conclude, the policy is advantageous in increasing government revenue, and reducing overall consumption of single-use plastic bags, which will benefit environmental sustainability; however, it also reduces real incomes, increases income inequality, and pushes the emergence of a black market. Thus, seeing that the disadvantages outweigh the advantages, a better solution must be provided. This commentary proposes that indirect taxes should be more targeted to specific groups. Initially, the Vietnamese government could apply this policy only to large corporations as they can adapt quickly through enormous funding in research to find alternatives compared to SMEs. Next, the policy should be applied to individuals with high-income levels as it will not have a substantial impact on their real incomes.

⁴ "Saigoneer in Vietnam 1 YEAR AGO, et al. "As Vietnam Gets Wealthier, Economic Inequality Also Gets Worse." *Saigoneer*, 26 July 2019, saigoneer.com/vietnam-news/17029-as-vietnam-gets-wealthier,-economic-inequality-also-gets-worse.

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Nevertheless, if there is a dire need for taxes to everyone, low-income individuals should be taxed significantly less. This is not only to sustain real incomes and have income equality but also to ensure long-term effectiveness of the policy through the consideration of the stakeholders' condition. Lastly, the government should also conduct massive socialization to the public regarding policy through methods such as tax trial periods. Governments should also consider implementing negative advertisement campaigns to bring a behavioral change in its people. This strategy will be beneficial for the long-run while imposing incremental consumption taxes will be advantageous for the short-run to achieve allocative **efficiency**.

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- > Kenton, Will. “Marginal Social Cost (MSC).” *Investopedia*, Investopedia, 14 Dec. 2020, www.investopedia.com/terms/m/marginalsocialcost.asp#:~:text=Marginal%20social%20cost%20(MSC)%20is,further%20action%20in%20the%20economy.
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Indonesia Unemployment and Fiscal Policy

COVID-era unemployment commentary | Key concept: Government intervention

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- Cyclical unemployment from falling aggregate demand
- Expansionary fiscal policy and multiplier logic
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Commentary 2

Title of the article: ‘Indonesia’s unemployment rise to 6.88 million in February’

Source of the article: The Jakarta Post
<https://www.thejakartapost.com/news/2020/05/05/indonesias-unemployment-numbers-rise-to-6-88-million-in-february.html>

Date the article was published: May 5, 2020

Date the commentary was written: April 3, 2021

Word count of the commentary: 800

Unit of the syllabus to which the article relates:
Macroeconomics

Key concept being used: Government intervention

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Indonesia Unemployment and Fiscal Policy

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Indonesia's unemployment numbers rise to 6.88 million in February

Adrian Wail Akhlas, The Jakarta Post

Jakarta / Tue, May 5, 2020 / 05:05 pm

The number of unemployed people across the country increased slightly to 6.88 million in February, Statistics Indonesia (BPS) data reveals, although this number does not reflect the impact the COVID-19 outbreak has had on the economy.

The figure was 60,000, or 0.8 percent, higher than the 6.82 million unemployed people recorded in the same period last year, BPS data also show.

"This is relatively flat despite an increase in the unemployment rate in tourism-focused regions," BPS head Suhariyanto said during a press briefing on Tuesday, adding that the COVID-19 pandemic had taken a toll on tourism since February.

In April alone, Indonesian Hotel and Restaurant Association (PHRI) data show that 1,642 hotels were temporarily closed, while Tourism Ministry data reveal that more than 1.7 million workers in the sector have been affected by the COVID-19 outbreak.

However, Indonesia's open unemployment rate dropped slightly to 4.99 percent in February from 5.01 percent recorded in the same month last year.

Suhariyanto said the informal sector remained an important part of the country's workforce, accounting for 56.5 percent of nationwide employment in February, despite a 0.77 percentage point decline year-on-year (yoy).

The BPS data also showed that education and healthcare sectors, among other sectors, hired the most people in February this year.

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“Meanwhile, jobs in several sectors including agriculture, trade and other services declined this year,” he said.

The unemployment data has yet to reflect the overall impact of the pandemic, Suhariyanto said, as the large-scale social restrictions implemented by regional and local administrations to curb the spread of the virus took effect in April.

These measures have upended the job market, with 2.8 million people losing their jobs, according to the Manpower Ministry and the Workers Social Security Agency (BPJS Ketenagakerjaan).

The government predicts that 2.9 million to 5.2 million workers could lose their jobs during the outbreak, which would erase last year’s gains of 2.5 million new jobs.

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The news article depicts that Indonesia has faced a '0.8% higher' level in unemployment which refers to people who are actively looking for a job but who are not employed¹, mainly due to the COVID-19 pandemic. The pandemic has resulted in people having reduced mobility, due to the government's 'large-scale social restrictions' to cut the transmission chain of COVID-19. However, these social restrictions have led to a fall in aggregate demand, which is the total quantity of aggregate output that all buyers in an economy want to buy². This then results in cyclical unemployment (or demand-deficient unemployment) that is resulted due to an initial reduction in aggregate demand³. The resulting cyclical unemployment then should be best tackled through effective **government intervention** methods that will be elaborated throughout this commentary.

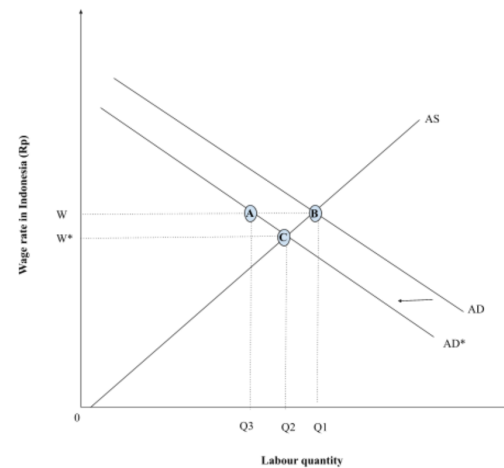


Figure 1: Cyclical unemployment in Indonesia due to the COVID-19 pandemic

¹ Tragakes, 265
² Tragakes, 236
³ Tragakes, 271

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Indonesia Unemployment and Fiscal Policy

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The figure above exhibits cyclical unemployment in Indonesia, emphasizing on its effects on the labour force. The reduction of aggregate demand from AD to AD* sparks a decrease in labor quantity from Q1 to Q3 as there will be less labour needed to produce a lower output, resulting in (Q1-Q3) as the amount in which unemployment will increase. Regarding the wages of the labourers, there will be two instances occurring. The first instance will be to stay the same in W due to wage inflexibilities although employing less labour from Q1 to Q3 (mostly among white-collar workers). On the other hand, the second instance will reduce wages from W to W* and reduce the amount of labour from Q1 to Q2 (mostly among blue-collar workers).

In Indonesia, the cyclical unemployment due to the COVID-19 pandemic is primarily due to how large scale social restrictions act as a barrier for people to purchase physical goods and services, thus resulting in a decrease in demand. The decreasing demand which results in decreasing profits for a firm will result in the firm's employees being unemployed or having reduced wages. Due to a negative change in wealth for employees, this will then exacerbate the cycle as people will be further discouraged to spend their money, thus further decreasing demand. Additionally, as the Indonesian government and the World Health Organisation claims in a public statement that the pandemic will be more 'deadly this year'⁴, the statement can also reduce consumer confidence about the future economic growth and future income. This pessimistic behavior of entertaining the possibility of lower incomes and poor economic conditions will also lead to a further decrease in spending, thereby further reducing present demand, and aggravating the previously explained cycle of cyclical unemployment.

To solve this issue, a possible **government intervention** is to apply expansionary fiscal measures to stimulate demand. The expansionary fiscal policy should be centered on decreasing personal income taxes, business taxes and increasing government spending. Firstly, a decrease in personal income taxes will result in a higher disposable income for employees, thereby encouraging them to increase their spending, resulting in increasing demand. As a consequence, the increase in aggregate demand and real GDP will trigger firms to increase their output, eventually resulting in more employment as firms generally need more labour to facilitate their

⁴ Pidato Presiden Jokowi Untuk Global Health Summit, 21 Mei 2021, Sekretariat Presiden, 21 May 2021, www.youtube.com/watch?v=u6Cs4nSKn2Q.

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increase in production. Next, a reduction of business taxes would also be beneficial as it can help increase the already minimal business retained profits and encourage more investment spending. More investment spending then can trigger jobs as there will be labour needed to run new business activities, thus reducing unemployment. The last fiscal intervention which requires increasing government spending as it will also be beneficial as it can lead to a *multiplier effect* in which the initial government spending could trigger firms to operate in maximum capacity, thereby increasing the revenue and profits of the firm, until it can surpass the initial government spending.

Contrariwise, this kind of **government intervention** which involves implementing expansionary fiscal policy may result in a significant government budget deficit, as the funds originating from tax revenues are reduced (*also note that there can be political manipulations by the government when cutting business taxes with the purpose to support only certain firms. Nevertheless, it can benefit from specific-targeting if conducted wisely*). This should be a cause for concern as a budget deficit will make it challenging for Indonesia as it is rapidly developing its infrastructure, developing social safety nets, and tackling the COVID-19 pandemic⁵ which requires them to devote significant funds to the healthcare sector. Nonetheless, the budget deficit could be momentarily solved through borrowing money from either foreign/domestic entities, although it may lead to a circumstance known as *crowding out* in which the private sector who lends money to the government do not have any funds left to invest and spend in the economy; leading to the same instance as before except worse since Indonesian government spending which is known to be inefficient⁶ can result in a declining output.

⁵ BAPPENAS. "Ringkasan Eksekutif Visi Indonesia 2045 Final." BAPPENAS, May 2019.

⁶ Parama, Mardika. "Corruption Risk to Indonesia's Infrastructure Push: Experts." *The Jakarta Post*, The Jakarta Post, 28 July 2020, www.thejakartapost.com/news/2020/07/27/corruption-risk-to-indonesias-infrastructure-push-experts.html.

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Albania Education Investment and Well-Being

Education spending commentary | Key concept: Well-being

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- Development, growth and capability approach framing
- Long-run evaluation of education underinvestment

Commentary 3

Title of the article: ‘Albanian Government Investment in Education Falls Short of Expectations’

Source of the article: Exit News

<https://exit.al/en/2021/10/02/albanian-government-investment-in-education-falls-short-of-expectations/>

Date the article was published: October 2, 2021

Date the commentary was written: October 21, 2021

Word count of the commentary: 800

Unit of the syllabus to which the article relates:
Developmental economics

Key concept being used: Well-being

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Albania Education Investment and Well-Being

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Albanian Government Investment in Education Falls Short of Expectations

From: **Alice Taylor** 02-10-2021 at 17:00

The Albanian government spent EUR 445.2 million on education in 2020, equivalent to 3.4% of the country's GDP, according to data published by [INSTAT](#).

While this is a marginal increase of 0.01% on 2019, it still means Albania [is among](#) the countries that spend the least on education globally. This comes despite continued pleas to increase spending and investment in the area.

When INSTAT looked at the amount spent on education in terms of total budgetary expenditure, this had decreased when compared with the previous year. At 10.2%, it's at its lowest level since 2015, according to historical data.

Meanwhile, Albania had 589,604 students enrolled in all levels of formal education in 2020-2021. This was a decrease of 3.7% when compared with the previous year, possibly due to emigration.

The number of children aged between 6-14 attending school also decreased with just 93% doing so. This was a decline of 0.9 percentage points on the year before.

In the 2019-2020 school year, over 98,000 students graduated, a decrease of 5.5% on the previous year.

The student ratio per teacher is 16.6 in primary and 13.9 in private schools. In high schools, INSTAT reported there were 8.9 students for every teacher.

For many years, local and international institutions have called on the Albanian government to increase investments in education. In 2018, the Albanian Coalition for Education [said](#) they had been promising for six years, to increase investment to 5% of the GDP. Yet, data from Europe and the region consistently shows that Albania ranks among the last for this matter.

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They wrote:

“The lack of public investment in education and the Government’s insufficient expenditure on quality and inclusive public education, continue to leave out of schools many children and adolescents in Albania! A high number of educational institutions do not provide the necessary services for children. According to the World Health Organization, almost 50% of schools in Albania do not have drinking water and about 70 % of the schools lack adequate hygiene conditions”

This issue was also highlighted following the COVID-19 pandemic when it became apparent some schools, particularly in rural areas, didn’t have basic facilities for students.

UNICEF also called on the Albanian government to increase spending to 5% as it would bring significant long-term economic benefits.

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The article above exhibits the case in which the Albanian government only spends 3.4% of their current GDP on education - an insufficient amount according to prominent entities such as the Albanian Coalition for Education and UNICEF - even though they have vowed to increase education spending to 5% of the GDP for 'six years' already. In evaluating this situation, this commentary will focus on its effects on economic **well-being** as a nation's education spending will significantly affect its economic development, especially in the long term. Nonetheless, before delving deeper, we must differentiate economic development and economic growth as these two topics will be foregrounded throughout this commentary. According to Investopedia.com, economic growth refers to 'an increase in the production of economic goods and services, compared from one period of time to another'.¹ In contrast, economic development, according to Amartya Sen's '*capability approach*' 'is the process of expanding human freedoms'² - to make people achieve human development by making full use of their individual potentials. In this case, we will focus on how the minimal spending in education will affect economic development efforts in Albania to see the effect on the **well-being** of Albanians.

¹ Team, The Investopedia. "Economic Growth Definition." *Investopedia*, Investopedia, 13 Nov. 2021. <https://www.investopedia.com/terms/e/economicgrowth.asp>.

² "Home." *Asian Century Institute*. [https://www.asiancenturyinstitute.com/development/333-amartya-sen-on-developments-as-freedom#:~:text=Development%20is%20the%20process%20of,they%20have%20reason%20to%20live".&text=Sen%20argues%20that%20th](https://www.asiancenturyinstitute.com/development/333-amartya-sen-on-developments-as-freedom#:~:text=Development%20is%20the%20process%20of,they%20have%20reason%20to%20live)ere%20are, social%20opportunities%2C%20transparency%20and%20security.

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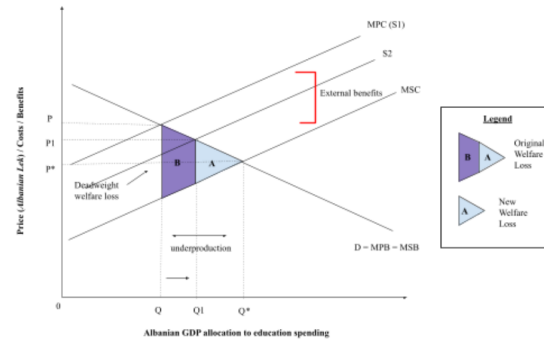


Figure 1: Minimal allocation to education spending by the Albanian government in 2021

Figure 1 above portrays a positive externalities graph regarding the Albanian government’s 2021 education spending. Firstly, this graph depicts a need for the Albanian government to shift the supply of education rightwards from ‘MPC’ to at least ‘S2’ by increasing its education spending. This movement will then create a value for quantity demanded for education, which will move from ‘Q’ to ‘Q1’. As illustrated, the distance between Q^* and Q represents underproduction and this movement will have the ability to shorten the distance, thus decreasing underproduction. The elimination of this underproduction will also result in less deadweight welfare loss from $A+B$ to A only, moving closer to achieving economic **well-being** as there will be more education - a merit good - that is provided to the society, which can provide numerous external benefits to society.

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The unwillingness of the Albanian government to spend more on education may have serious repercussions on economic **well-being** in Albania, especially in the long term. The first effect is that the lack of education in Albania can result in Albania not being able to adapt to the current Industry 4.0 concept which focuses on human capital development to boost innovations when advancing the economy. In relation to this, without developing human capital within the nation, it will also make Albania not interesting in attracting foreign direct investment as the human capital infrastructure capabilities to run complex industries are not available. Not attracting foreign direct investments (FDI) is a huge opportunity cost for Albania as Albania will miss the opportunity of more employment opportunities for Albanians and transfer of skills schemes from advanced foreign industries to Albania.

On the other hand, investing more in education can help Albania achieve economic growth and economic development at the same time. With education, Albania can achieve this as more education can reduce income inequality in the nation. In reducing income inequality, education can significantly increase human development as people will have better wages due to having high-paying jobs and lower unemployment levels as a whole. Moreover, when people are already having better wages and they are becoming more independent, it can also help the government when allocating their budget. To exhibit this, as people are independent, the Albanian government does not need to always give 'handouts' (e.g. stimulus), especially in times of crisis, frequently, to provide people with basic goods and services as people are already able to find these themselves as they are already given the rights (via education) to search basic goods and services. Hence, the Albanian government can provide funding to other essential sectors. This is a classic example of how the *bottom-up approach* towards the economy is more effective than the *trickle-down approach*.

Similar to other developing countries, this commentary assumes that Albania currently is increasing spending on consumer products which leads to economic growth but not development essentially. Due to this, specifically, Albania will not suffer human poverty, but rather income poverty. This will also lead to a rising urban informal sector, which can lead to unregulated job positions by the government and the rise of crime rates due to low incomes and the need to

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survive. This can also lead to emigration due to poor working prospects, leading to Albania having a lower working population and hence lower potential output.

In conclusion, the commentary portrays the opportunities Albania can benefit from if it invests more in education. Essentially, it can enhance economic **well-being** through empowering human development in the nation. Lastly, economics aside, it is imperative to remember that education is also a basic human right³, and thus it poses a moral responsibility for Albania to fulfill this right.

³ "Introducing Human Rights Education." *Manual for Human Rights Education with Young People*, <https://www.coe.int/en/web/compass/introducing-human-rights-education#:~:text=Article%2026%20of%20the%20Universal,Human%20Rights%20and%20Fundamental%20Freedoms>.

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