

The Economics of Islamic Education: Evidence from Indonesia

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**A thesis submitted to the University of Adelaide in fulfillment
of the requirements for the degree of Doctor of Philosophy**

School of Economics

December 2009

“Verily, in the creation of the heavens and of the earth, and in the alternation of night and day, there are indeed signs for men of understanding.”

The Qur’an surah Al-Imran (The Family of Imran) verse 190

ABSTRACT

This thesis is about the economics of Islamic education in Indonesia. It consists of three core chapters that examine impacts of Islamic education at different levels: individual, regional and local community levels. These chapters cover the relative disparity of educational quality across Islamic schools and its impact on regional income per capita growth, the impact of government intervention in Islamic schools on graduates' earnings and schooling, and the positive externalities that might arise from the presence of Islamic boarding schools. This work adds to our understanding on how Islamic schools function as well as how Islamic education could be improved in the future.

The first academic contribution of this thesis lies in its methodology in dealing with limited samples. In the absence of access to data from a survey, to a randomization project that is specifically designed to capture the research objective or to long time series data from the statistics office, this study applies some novel methods. It conducts a Monte Carlo simulation to predict the magnitude of small sample bias from a very short panel analysis. In another chapter, due to unavailability of relevant time series data, the study exploits information from cross-sectional data to implement the difference-in-difference estimator. In another chapter, a series of robustness tests and econometrics strategies are implemented to control for selection bias.

The thesis also contributes to long-debated issues such as determinants of religiosity, determinants of economic growth and school completion factors by providing empirical results and showing that different samples can produce uncommon findings contradicting expectations. It also offers empirical evidence of the significance of variables that have never been considered before in the literature, such as the effect of religious education on income growth; the effect of the characteristics of religious leaders and the institutions they lead on socio-economic behaviour; and the formation of social capital of the surrounding community.

More specifically, the first core chapter attempts to analyse the relationship between religious education, the quality of education and regional income per capita across provinces in Indonesia. Using nationally comparable examination scores based on 2003-2005 provincial data, the picture of Islamic education in Indonesia at junior

secondary schools is education with not only low academic achievement but also unequal performance. In contrast, non-Islamic schools including public non-religious schools have shown significant improvement in equality of performance across provinces, most likely due to low performers being supported by increased involvement of local governments in this decentralisation era. The overall empirical results showed that quality-inclusive growth model specification is preferred to avoid upward bias. I find that the social marginal effect of years of schooling is only two-thirds of the estimate using standard analysis. Nevertheless, the relative importance of the quantity of education is still evident. Classifying education into two types – Islamic and non-Islamic education—suggests that while there is no difference between rates of return to the *quantity* of new human capital stock from Islamic education and non-Islamic education background, the quality-augmented new labour stock from non-Islamic education background is more significant than new stock from Islamic education background for regional income per capita growth. However, once we take into account inequality, the difference disappears. This implies that the different contribution of quality-adjusted new stock between human capital with religious and non-religious education background might be largely due to different inequalities across provinces.

The second core chapter attempts to oversee the impacts of government intervention in religious education on schooling and individual earnings. In 1975, the Indonesian government regulated the primary to secondary curricula of Islamic schools or *Madrasah* in Indonesia. The regulation required 70% standard education and 30% religious education. But the position of *Madrasah* as regular schools with Islamic characteristics (*sekolah umum berciri khas agama Islam*) was not integrated into the Indonesian education system until 1989. While the regulation was meant to standardise the quality of *Madrasah* it was perceived by some Islamic education practitioners as secularism within Islamic education. It has been questioned whether this has brought positive impacts on schooling and on the Islamic school graduates' competitiveness in the labour market relative to graduates from other types of schools including public and non-Muslim private schools. Using data from the 2000 Indonesian Family Life Survey (IFLS), eleven years after its introduction the reform has not improved either educational outcomes nor individual earnings of *Madrasah* graduates. But it has contributed to the promotion of nine year basic education in rural areas.

The third core chapter examines the socio-economic significance of religious boarding schools (*Pesantren*) in communities in Indonesia. More specifically, I look at the role of *Pesantren* leaders or *Kyai* and various institutional aspects of the *Pesantren* on three variables of interests: religiosity, earnings and demand for religious education. Using data from a survey of around 500 heads of households across nine *Pesantren* in Indonesia, it finds local community benefits from more intense interaction with the local religious leaders of Islamic boarding schools (*Pesantren*) than does the external community. But the direct benefit of living close to *Pesantren* only matters for religious participation, not for earnings or demand for religious education. However, the study finds that religiosity is more positively significant for earnings of the community surrounding the *Pesantren*, probably due to networking effects. Hence, community involvement of religious leaders can indirectly and positively affect earnings of the surrounding community and affect demand for religious education. The overall results suggest that *Pesantren* contribute to the formation of social capital, particularly in the form of religiosity, which contribute to the improved welfare of the surrounding community.

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ACKNOWLEDGEMENT

The author is grateful to The Almighty Allah for all blessing and favor that made the completion of this dissertation possible.

I thank all who have provided support and encouragement throughout my candidature:

Foremost, Professor Christopher Findlay who has always wisely and patiently mentored me.

I thank my supervisors Dr. Pataporn Sukontamarn for her survey data, discussions and invaluable comments on my earlier draft and Dr. Reza Siregar for his valuable advice especially in my early years as a postgraduate student.

I thank Professor Fabrice Collard, Dr. Jacob Wong and Dr. Stephanie McWhinnie for their comments on an earlier draft of the thesis.

I thank current and former professional staff at the School of Economics for financial and administration assistances, especially to Ms. Christine Kalogeras and Ms. Siobhan Guy.

I thank Linda Christensen and Dr. Kerrie Round for their excellent editorial assistance.

I thank the School of Economics, University of Adelaide for the fee-waiver scholarship, teaching assistanship and conference scholarship which provide additional financial funding during my PhD study.

I thank participants and organising committees at: (i) International Colloquium on Islamic Law in South East Asia on 12 November 2007 at University of Melbourne; (ii) PhD conference on Islamic Studies on 13-15 November 2007 at University of Melbourne; (iii) Educational Research Conference on 22 November 2007 at Flinders University; (iv) The Asia-Pacific Economic and Business History Conference on 13-15 February 2008 at University of Melbourne; (v) The Departmental (Brainbag) Seminar on 26 May 2008 and 11 May 2009 at School of Economics University of Adelaide; (vi) World Education Forum on 28 June 2008 at Adelaide Convention Centre; (vii) The 5th Australasian Development Economics Workshop on 4-5 June 2009 at University of Melbourne (viii) Australasian Public Choice Conference on 10-11 December 2009 at Deakin University.

This thesis is dedicated to my husband Rio Widyo Ardono, my son Raihan Rasyad Ramadhan Widyo and my parents Haris Suro Wardi Atmodjo, Tetty Rusteti, Widyo Wiharto, and Tutiek Masria Widyo, my brothers Ristiano Pribadi and Reno Jordan Faizi and my sister Sekarsari Gayatrie and her three beautiful daughters (Khansa, Kahla and Kanaya) as this thesis could never be completed without their support.

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THESIS DECLARATIONS

This work contains no material which has been accepted for the award of any other degree or diploma in any university or other tertiary institution to Risti PERMANI and, to the best of my knowledge and belief, contains no material previously published or written by another person, except where due reference has been made in the text.

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