

The ongoing evolution of human capital

Hiba Huneini| The Daily Star 17-10-2018

The value of human input in growth and development has been recognized since the invention of modern economics. Ever since the Industrial Revolution and the discovery of the division of labor, skills of individual workers have been incorporated as an important element of productivity like capital, machines and land. In other words, the discussion around human capital and its role in productivity has received a lot of attention from governments, businesses and social scientists. This year has seen a lot of global attention on human capital, especially on the scientific and global policy arenas. Scientifically, the Nobel Prize committee has granted its 2018 Prize in economics to professor Paul Romer of New York University, and professor William Nordhaus of Yale University. The Nobel Committee, in its reasons for awarding the prize to Romer, highlighted his seminal work in demonstrating “how knowledge can function as a driver” for economic growth and “how economic forces govern the willingness of firms to produce new ideas and innovations.” Romer’s work introduced formal evidence on the impact of innovation in increasing returns to scale: He proved that innovation can stimulate a level of productivity higher than the normal impact of the increase in the other factors of production, like labor and capital.

In other words, investment in innovation, hence investment in human capital, has a boosting effect in productivity and growth. In that sense, the Nobel sheds light on the global need for deep thinking on the value of investment in human capital as a direct driver of overall economic growth.

In the global development policy arena, the annual meetings of the World Bank and the International Monetary Fund have been the venue for launching the World Bank’s Human Capital Project: “a global effort to accelerate more and better investments in people for greater equity and economic growth,” according to the World Bank. The project has three main pillars.

First, the human capital index, which “quantifies the contribution of health and education to the productivity of the next generation of workers.” The index is a serious attempt to assess countries’ human capital in the status quo scenario versus what they could have achieved in a complete scenario.

The project categorizes countries into quartiles. The global map shows clearly that the developing world has a clear deficit in human capital, with majority of it falling either in the first or the second quartile. The global average in human capital index is 0.57, which means that we could have almost doubled our productivity and growth if we had doubled our investment in human capital.

The second pillar of the project is “measurement and research.” This pillar highlights the importance of data and credible measurements in health and education locally, nationally and globally. It stresses the importance of credible data collection, scientific analysis and organization in improving development policies. The work needed for the fulfillment of this pillar requires awareness raising for governments and multilateral cooperation.

The third pillar of the human capital project is “country engagement”: “The Human Capital Project will help countries tackle the worst barriers to human capital development, using a ‘whole of government’ approach,” according to the World Bank. It will organize an annual summit for human capital during which leaders from governments and civil society whom the bank calls “champions of human capital” come together to discuss ways to protect the rights of future generations.

There has been a global focus on human capital and its impact on the growth and progress; however, the Human Capital Project is a structured movement led by a resourceful global organization that gives the movement the necessary mechanisms to move from theory to action. Moreover, the human capital index has moved from the classical adherence to education as the sole indicator of human capital improvement to a compound index of health and education indicators, including the probability of survival to age five, expected years of school, harmonized tests score, learning-adjusted years of schools and adult survival rate.

This important global endeavor needs to consider a variety of elements that require deep discussions and public consultations in the framework of the human capital debate. Variance inside each country needs to be taken seriously in assessing its human capital score. We must not fall into the fallacy of one-number indicators, and we must learn from the policy errors that emerge from ignoring the effects of outliers and fat tails in indicators’ design. Human capital must not be solely linked to economic productivity, but other important types of capital must be considered and equally studied, like inter alia, social capital, i.e. the wealth of social norms and networks, and cultural capital.

Finally, there are noneconomic and nondevelopmental indicators that should be considered when assessing any given country’s human capital, like freedom of expression, respect for human rights, and equality.

Hiba Huneini is manager of the youth and civic engagement program at the Hariri Foundation for Sustainable Human Development. Email her at hiba.h@hariri-foundation.org.