

Put the 'human' back into human capital

Thinking of human capital in income and productivity terms is reductive. We need a more holistic approach.

Ravi Chidambaram
and Parag Khanna

For *The Straits Times*

As technological change disrupts entire industries and inequality threatens political stability, attention has shifted towards the question of how to upskill the labour force for higher productivity. But productivity is only one piece in the much larger puzzle of human capital.

Human capital is a deeply potent concept, one of those rare ideas so powerful that it becomes a force in its own right. Formally, the term was developed by the late Nobel laureate Gary Becker in his efforts to quantify the value of secondary education in America's post-World War II decades.

Today it is taken to mean either too little or too much: When referring to the importance of education to boost it, it is too broad and also incomplete; when focused on the "specific capital" needed in particular jobs and firms, it is too narrow and short term.

One thing is for sure: Human capital is too important to be something only economists debate about. It should be nothing less than a national ideology.

The ancient Greek philosopher Aristotle argued that eudaimonia – human flourishing, well-being and happiness – was the critical ingredient to a successful society. From Aristotle to Gary Becker, a wide range of elements have been identified as essential to overall societal welfare such as a national spirit or ethos, social cohesion and equity, education and talent, order and safety.

Like love or other intangibles, one can say of human capital: You know it when you see it.

The Organisation for Economic Cooperation and Development defines human capital as merely a factor of production alongside land and capital; in other words, the labour force. Human labour adds value to production, and investment in that labour force through education and training can increase its value-added.

The higher a country's level of human capital, the greater contribution it makes to overall productivity, competitiveness and growth. This tidy formula runs into great difficulty in today's world where both what we are measuring and how we measure it are increasingly tenuous.

Take productivity, the standard measure of gross domestic product (GDP) output per worker per hour of labour. Economists fret about slowing or decelerated productivity growth in recent years. For example, digitisation, which brings the promise of higher productivity growth, also comes with transition costs and duplicated business structures. Enabling platform technologies



from e-commerce, mobile telephony and cloud data storage helps everyone do what they do more efficiently; yet become competitive threats as they are effectively free and can be adopted by rivals or upstarts.

Then there is the question of purpose. Are traditional approaches to productivity a good proxy for one's livelihood in an age where everyone from factory workers to lawyers to bankers is being displaced by new technologies?

The more productive technology gets, the more we need to promote a new way of thinking of our own self-worth beyond productivity.

Indeed, this is why an excessive focus on formal education is unwarranted in measuring human capital.

Metrics such as the amount spent per child, Pisa (Programme for International Student Assessment) assessment results and return on investment in education as measured by income simply explode when chartered financial analyst accountants find themselves overnight driving for ride-sharing companies or serving coffee as baristas – jobs that, too, are at risk of automation in the near future.

NETWORKS AND RELATIONSHIPS
How do we measure human capital in the age of the gignomy?

Many economists have pointed out that measuring human capital through economic proxies such as income and productivity is insufficient. Indian economist and philosopher Amartya Sen made an important modification to the human capital approach by

emphasising capabilities: What capacity does each person have to pursue a good life?

This brings human capital back to its holistic roots. Singapore's healthy population and longevity, and its excellent education system have contributed both to each other and to its strong human capital, not one more than or versus the other.

One's personal and social networks can be crucial for advancing human capability.

Family, friends, alumni groups, religious communities, recreational clubs and other affiliations are all sources of identity and happiness, and also

In the coming years, even more can and should be done to support human capital enhancement for individuals and society as a whole. For example, Singapore is rated the easiest country to start a business, but also the most expensive city in the world to live in and operate a business due to high operating costs such as utilities and materials imports.

professional resilience in times of need. So too are digital networks, which enable a nascent global social capital by which people can engage in part-time language or coding courses and do online work as well such as graphic design or document editing – building new interpersonal relationships along the way.

Different societies express the intangible sides of human capital in many ways. Japan, for example, has such a high degree of trust that money left on the street is often returned to strangers. Indians, who have abysmally low labour productivity, nonetheless have a knack for inventing low-cost solutions to their problems, a practice known as *jugaad*.

It is perhaps no surprise that the usual suspects of small European countries, such as the Nordics and Switzerland, dominate the World Economic Forum's ranking of human capital, with the United States and Germany the only large countries on the list.

In these high-income countries, the World Bank assesses that 65 per cent of GDP is derived from human capital versus only 40 per cent in developing countries.

This roughly correlates to the share of the economy generated from the service sector versus industry or agriculture.

Norway and Finland in particular are emblematic of societies where human capital is an organic or innate worldview: Children are born full of potential and nurtured multi-dimensionally with no fixed economic plan – and yet the whole society prospers with a high degree of equity.

WHAT SINGAPORE CAN OFFER

Singapore falls just outside the top 10, but first in Asia, ahead of even Japan. What is Singapore doing right and wrong in promoting human capital? Both its general and technical education are world-class, as is aggressive industry alignment to maintain near zero unemployment. With high life expectancy, Singapore also boasts the highest rate of full-time adult employment.

Local small and medium-sized enterprises constitute 99 per cent of the nation's companies, two-thirds of the workforce and half of GDP. A government-wide effort is under way to enhance the role of technology in firms of all sizes to promote their viability, as exemplified by Enterprise Singapore's Capability Development Grants.

All of this will help Singaporean firms bring "something special to the table", as Finance Minister Heng Swee Keat recently warned that they must do to remain competitive.

In the coming years, even more can and should be done to support human capital enhancement for individuals and society as a whole.

For example, Singapore is rated the easiest country to start a business, but also the most expensive city in the world to live in and operate a business due to high operating costs such as utilities and materials imports.

Furthermore, as layoffs become a steady feature of major sectors such as finance, entrepreneurs will need more space to rise up and compete in an environment dominated by government-backed

incumbents or unicorns.

The World Economic Forum further recommends that Singapore do more to promote female workforce participation (with measures such as more robust childcare services, which would in turn also promote higher fertility rates) and make higher education more inclusive.

Then there are civic values and ethics. Singapore's pioneer generation was selfless in its nation-building efforts. What can be done to cultivate the ethos of empathy, volunteerism and other virtues among the next generation facing a new set of social challenges, such as caring for the elderly, integrating recent waves of migrants and mitigating inequality?

Indeed, can Singapore ensure that what Dr Becker called "good inequality" – the result of a meritocratic system producing high-earning professionals – motivates those less well-off to work hard and follow behind them, or will inequality be exacerbated by the current inter-generational transfer of wealth under way?

Even if Singapore re-introduces a wealth tax, how will it be spent to creatively encourage human capabilities to flourish rather than just the oft-discussed financial opiate of subsidies known as "universal basic income"?

Singapore should aim for its human capital to match its capital stock: Our fixed capital formation (a measure of the value of physical infrastructure) is by far the world's highest.

There is an alchemy to the mix of chaos and control needed to enhance human capital.

In education, PSLE may be phased out, universities are reducing grading in favour of letting students explore subjects freely without academic anxiety, and polytechnics are expanding course offerings in novel directions to cater to creative industries.

As the Government loosens up in the civic space, Singapore has become a hub for everything from street art carnivals to extreme sports events to electronic dance festivals.

The influential mid-century Hungarian novelist and anti-communist activist Arthur Koestler published an insightful collection of essays in 1945 titled *The Yogi And The Commissar*, contrasting the latter's desire for top-down social engineering with the former's more reflective and inward-looking quest for self-improvement. Singapore's top-notch commissars need to be matched with some respected yogis as well. Human capital emerged from economic science, but it is equally an art.

stopinion@sph.com.sg

• Ravi Chidambaram is president and co-founder of TC Capital. Parag Khanna is a Senior Research Fellow at the Lee Kuan Yew School of Public Policy.