

AN INTERNATIONAL POLICY PERSPECTIVE ON INVESTMENT IN HUMAN AND SOCIAL CAPITAL

Thorvald Moe¹

This symposium – organised in collaboration by HDRC and OECD/CERI – is part of a broader effort undertaken by the OECD to study the causes of growth disparities across countries and to identify evidence of fundamental departures from past trends (i.e. the possible emergence of a “new economy paradigm”). The main orientations of this work are:

- A focus on the causes of economy-wide growth.
- A framework to account, in an integrated and consistent way, for past and recent economic developments.
- An emphasis on those determinants of economic growth that are more amenable to policy actions.
- An investigation of the micro-economic sources of economic growth at the level of individual enterprises.

Within this investigation of the determinants of economic growth is the assessment of the role of human and social capital. Evidence from this workshop and from the OECD Growth project more generally will be reported to Ministers in 2001. But before focusing on human and social capital, let me mention another important and related strand of OECD work that I see as highly relevant for our symposium discussion, our work on Sustainable Development.

It is well known that GDP is an imperfect measure of material welfare, and that human capital, social conditions and the state of the environment are all important components of overall welfare. Underlying the concept of Sustainable Development is the idea that human well-being should not decline over time which requires maintenance of resources (man-made capital, natural and environmental capital,

¹ Deputy Secretary General, OECD.

human and social capital) on which it is based². While enhancing our understanding of the “drivers” of economic development, we must also better assess its “consequences”; consequences for the environment, but also for the human and social fabric of our societies. Economic growth may not last if it restricts opportunities for future generations (e.g. climate change); or if large numbers of individuals cannot benefit from it. In other words, economic growth should be regarded as a means rather than an end in itself, and policy makers need to recognise the comprehensive nature of the development challenge. Work is ongoing in the OECD for the preparation of documentation for the OECD Ministerial Council on policy options to make economic development more sustainable.³

Let me now come to the specific theme of this symposium. Human capital is by now well established as a fundamental driver of economic growth. We have a good understanding of how it accumulates and decays over time; of the variety of forms and settings in which it is provided (formal education and training); of the returns for the individual that it generates. The OECD published in 1998 an important contribution on human capital (OECD 1998), in response to a Ministerial mandate in 1996, and it is in the lead today in developing and implementing survey-based measures of “competencies” for both students and (to a lesser extent) adults. Moving from indirect measures of inputs (expenditure) to direct measures of results is a crucial step. This “human capital” agenda was stressed by an informal Forum of OECD Education Ministers in Copenhagen just one week ago. But other important challenges in the measurement of human capital remain, including a better understanding of some “non-economic” returns from human capital for quality of life and social cohesion. Results in some of the papers at this workshop suggest that these returns (for example, the effects of parental education attainment on that of children) may be as large as the returns to education accruing to individuals. A better understanding of their nature and magnitude has an obvious importance for determining the best level of investment in human capital.

The challenges are somewhat different when considering social capital. In recent years, social capital has been very successful in helping to draw policy attention to the importance of social arrangements for economic efficiency and economic growth, and for mainstreaming into economic discourse a range of insights provided by other disciplines. Arguments about declining levels of social capital in some OECD countries are also suggestive of a pattern that mirrors the declining natural capital which motivates the agenda on environmental sustainability. But we have still to prove the value of the “capital” analogy by better identifying the process of formation and the effects of social capital, and how

² I will not go into the debate on weak versus strong sustainability.

³ While the economic/environmental interface of development is fairly well documented over the last decade, the relationships between sustainable development, human capital and social conditions are - surprisingly - much less developed.

we measure the matching investments, depreciation and returns, both economic and non-economic. Work on social capital is still in its early stages and its policy implications are not yet fully spelled out. But, as noted in the background paper by Temple, this is not different from the introduction of human capital into economics, a concept that in its early stages seemed too ethereal and with few immediate implications for educational policies. My hope is that, by better understanding the sources and functions of social capital, we will leave our successors better prepared to make economic growth more socially sustainable.

The challenge is to understand better the inter-relations, the evidence for various impacts and the possible policy levers. The OECD welcomes the opportunity to discuss these issues with a range of experts in co-operation with HRDC. We thank the Canadian Authorities for hosting this international symposium, and expect it to be an important input to our work on both the sources of economic development, and on how to make it socially sustainable over the medium and longer term.

References

OECD (1998) *Human Capital Investment – An International Comparison* Centre for Educational Research and Innovation (Paris: Organisation for Economic Co-Operation and Development).