

THE NEWS **Rebuilding human capital [Part – I]**

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When countries face short-term financial crises it is natural that more deep-rooted and important issues are neglected, perpetuating the cycles of economic instability from time to time.

It may appear to be a hoarse cry at this stage when our attention is focused on agreement with the IMF, finding resources for our external financing requirements, rapid depreciation of rupee, foreign exchange reserves, debt servicing payments, FBR revenues, to raise questions that span the medium- or long-term time horizon. Given the changing nature of our external environment, if we do not prepare ourselves for meeting the future challenges we will remain in a state of perpetual atrophy.

This article is an attempt to draw the attention of the policymakers and the leaders of our society to start thinking of and implementing the changes required to strengthen and rebuild our human capital that would be the backbone of the knowledge economy.

Human capital is the knowledge, attributes, training, skills, experience, and health of the workforce and is a much broader and extensive concept than human development. The responsibilities of firms and employers in human capital formation are equally critical for increasing productivity and consequently profitability. The more investment a company makes in its employees, the chances of its productivity and success become higher but this micro-level discussion is not covered in this article.

Let us begin with an assessment of the current situation. Our adult literacy rate has not budged much and has stagnated around 60 per cent while one quarter of our youth is illiterate. Out of 52 million children of schoolgoing age, 22 million have either dropped out or never attended school. More than half of the relevant age cohort children are out of secondary schools and the

enrolment ratio in tertiary education is only 12 per cent. Out of 149 countries, Pakistan is ranked 112th in the world on primary school enrollment. The average years of schooling of our workforce is nine years and therefore labour productivity is not only relatively low but has stagnated since 2007, making our exports uncompetitive in the world markets.

Health indicators are much below the desirable threshold levels. Our ranking on the Human Development Index is 118 out of 149 countries. Pakistan ranked 134 out of 151 countries on the World Bank's newly introduced Human Capital Index which is more relevant as it has multiple dimensions such as survival, expected years of learning, adjusted schooling and health. The index differs from the HDI as its components of education and health reflect their contribution to worker productivity – something we are lagging behind in, and which is the cornerstone of sustained equitable growth.

For example, a score of 0.50 on the Human Capital Index shows that the GDP per worker could be twice as high if the country reached the benchmark of complete education and full health. Average or expected years of schooling are found to be a partial or incomplete proxy for human capital and that is why human capital measured only by the average years of schooling failed to deliver the returns predicted by growth models. It is only when quality or learning outcomes are added that the contribution of human capital is found to be more strongly associated with growth.

Adjusted for learning, the average years of schooling in Pakistan falls to 5.1 years from 9 years. Eighteen million children going to government schools in Pakistan are getting a very poor quality of education where, on average, a fifth grader cannot even write a sentence in Urdu. Inequalities in learning outcomes between those who attend elite private schools and those who go to government schools are becoming sharply acute and acting as a barrier for intergenerational social mobility. Ninety per cent of children across Pakistan are underachieving in math and science. The enrolment in science and technology subjects at the university level has been constantly on a downward slope.

A recent World Bank study has found that economic drivers such as economic growth, rising education, and declining fertility cannot adequately explain the levels and trends of female labour force participation rates in South Asia. Social norms about gender can be a key obstacle towards gender equality and these norms are particularly biased against women. Many jobs and occupations are considered 'men's jobs', and few women cross over. This concentration of employment in a few (mainly service) sectors exposes women to large employment losses when a crisis hits these sectors. Mobility restrictions further limit women's ability to work outside the home. Social norms hinder women's access to land, financial capital, and other assets. They also limit households' investment in women's human capital, reducing access to higher education, and constrain women's influence over decision making, inside and outside the home.

We now turn to the latest research findings and insights on human capital. Empirical evidence on cross-country income differences has established a positive relationship between human capital and economic growth which in turn is correlated with poverty reduction. The channels through which human capital affects growth are: (a) directly as a factor of production; (b) its influence on technological progress; (c) a proportion invested in knowledge generation that allows growth to go indefinitely; and (d) positive externalities such as lower mortality rate, lower fertility and better nutrition and cleanliness.

An impetus to the human-capital-technology nexus was received by the endogenous growth theory, demonstrating that traditional inputs like capital and labour which have diminishing rates of return account for only half the differences in countries' output; and ideas, knowledge and technology which have increasing rates of return account for the remaining half.

Startups have turned into unicorns just on the basis of an idea the founders had seized upon. Human capital is seen as instrumental to the development, adoption and operation of new technologies. Studies have shown that students were going to school but not learning – an emerging gap in human capital formation. Thus, emphasis needs to be placed on learning rather than completion of schooling years.

The stylized facts show that girls outperform boys in learning, a positive gender gap. Working women, when compared with women who do not work, report higher levels of agency, which, together with more resources, is associated with improvements in nutrition, healthcare utilization, productivity, and overall well-being for both women and their children. Human capital accumulation and skill formation are really lifecycle, life-long processes with high returns on early childhood development.

What is happening in the international talent market? According to the UN, the migrant stock has risen almost 100 million in the last two decades or five million per year on average as advanced countries with ageing populations are meeting their demand for skilled and quasi-skilled labour drawing on the migrants. Seventy-one per cent of the migrants went to high-income countries.

Japan, a country that had so far defended its ethnic homogeneity, has indicated that it would need 2.4 million people with science and technology talent. The competition to attract international talent is going to become fierce as is evident from the policy documents issued by the US, UK, Japan, Canada, Australia and Korea. Even China is facing shortages in Artificial Intelligence expertise.

Pakistan, with 60 per cent of its population below the age of 30, can prepare its youth with the skills that respond to the specific demand of these countries. This would partially solve the problem of absorbing these youth in the domestic labour market, and increase the level of remittances in the short term. In the long term, the returnees would bring back knowledge and experience that would help the country's economy.

To be continued

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