**Session 20**
**Is Human Capital the Future of countries**

# Human Capital and Economic Development: Some Comments in the Context of Less Developed Countries

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There is ample evidence that human capital formation, most ostensibly through education, facilitates investments in physical capital, enhances the development and diffusion of new technologies, raises output per worker, and even ultimately decides the quality of economic and political governance –the crucial ingredient of sustainable economic development in less developed countries. However, there are many complex issues regarding how the interactions among education systems, human capital formation, labour market outcomes and economic performance work out at a given level of economic development and in the country-specific contexts.

As less developed countries are putting more emphasis on building human capital, policymakers are faced with a challenging question: How should the education system be organized so that the expansion of education is matched by creation of opportunities for productively utilising a better educated and better-skilled workforce? Matching improved human capabilities with economic opportunities needs to be part of an overall development strategy that is aimed at increasing labour productivity and promoting technological diffusion and global competitiveness.

A missing link in the potential virtuous circle of education, skill formation and economic performance is often the quality of education. While school enrolment and completion rates are easier to measure and have been the major focus global educational goals, one key dimension of education has received much less attention: quality learning. There are studies that demonstrate that it is the cognitive skills of the workforce, and not school enrolment or number of years as such, that are strongly related to individual earnings, distribution of income, and economic growth.

In the developing countries that are poised to benefit from a "demographic dividend" in terms of a youth bulge, the challenge for the education systems is to leverage the advantage of rapid growth in the labour force. National and international efforts have made considerable progress in pushing enrolment rates in primary education to near universal level in large parts of the developing world; but primary education alone, even if efficiently managed, does not provide individuals with skills that are highly rewarded in the labour market –critical thinking, communication and social skills. Education policymakers will need to pay increasingly more attention beyond primary to post-primary and tertiary education to cope with a faster pace of technological developments and the accompanying needs of a more educated, skilled and adaptable labour force.

Another missing link between economic performance with education and training systems arises from skill mismatches resulting in educated unemployment. There is an apparent paradox here. Not only higher education has been increasing rapidly in many developing countries, but also there seems to be unmet excess demand for such education. Yet, the unemployment rates can be high among educated

[1] For a fuller exposition, see Working Paper of the International Growth Centre at the London School of Economics at http://www.theigc.org/wp-content/uploads/2014/08/Mahmud-2014.pdf)

and skilled workers – even higher than in the rest of the workforce. The skill mismatch in the labour market is also related to a country's capacity to take advantage of opportunities in the global markets, such as through technology adoption and development of new export industries. Many technologies imported by the less developed countries from more advanced countries may not find suitable local workers trained for adapting these technologies to local conditions. A number of questions need to be addressed: Is expansion of higher education leading only to more educated unemployment because of absence of appropriate signalling by the labour markets? What kinds of skills are in shortage? What reforms in the education systems are needed to make the college graduates employable on the one hand, and to address the skill shortages, on the other?

The need for skill training of those who are already in the workforce is another key element in meeting the skill needs of economic growth. This is particularly important for the South Asian countries and some countries in Sub-Saharan Africa which are experiencing accelerated economic growth but have a labour force currently consisting of a majority of illiterate or low-skilled workers. Without further training, these workers will be ill-equipped for occupational mobility associated with economic growth. Research has shown that post-school learning is an important source of skill formation that accounts for as much as one-third to one-half of all skill formation in a modern economy. Creating incentives and institutional arrangements for on-job training remains a challenge.

Less developed countries facing resource constraints may face a choice to educate their citizens either "widely" or "deeply". The "wide" or "universal" approach seeks to provide the same basic education to the country's entire population without emphasising higher education initially. In contrast, the "deep" or "elite" approach concentrates on providing the most talented individuals quality higher education at home, while giving somewhat less attention to universal quality education at primary and secondary levels. South Korea provides an example of the first approach, India of the second approach and China lying somewhere in between. The alternative approaches in the educational systems have implications for the patterns of development and income distribution. In East Asia, the achievement of high economic growth driven by manufacturing exports and without worsening of income distribution is attributed in part to a universal approach to education. On the other hand, India's ability to take advantage of the new possibilities in high-tech information services largely resulted from its long-standing investments in higher education. The contemporary less developed countries can take a middle road. China, for example, expanded primary and higher education simultaneously, recognising that success required both universal literacy and a cadre of highly skilled individuals capable of absorbing advanced technology

The potential negative effects of the out-migration of highly skilled manpower from the developing countries – the so-called brain drain – are well recognised. But there may be some positive aspects of the brain drain as well. One argument is that the prospects of highly paid jobs abroad may lead to more investment in skills, resulting in a more highly educated domestic workforce – the so-called beneficial brain drain. There is also the prospect of benefiting from a reverse brain drain (or brain gain) by attracting back the emigrant skilled workers, as is happening to some extent in India and China. There are untapped opportunities for more cooperation, both North-South and South-South, in facilitating human capital development in less developed countries.