Transcript of IMF podcast with Eric Hanushek: “More One Knows, Faster One Grows”

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Hello, I’m Bruce Edwards and welcome to this podcast produced by the International Monetary Fund. This week, the more we know, the more we grow.

MR. HANUSHEK [soundbite]: *“Human capital is basically the skills of people. And we call it “human capital” because, like physical capital, you can invest in it and you can increase your skills, and that societies that invest a lot in the skills of their people do better.”*

I’m Eric Hanushek. I am an economist at Stanford University and I study education policy in general and how that relates to economic outcomes.

MR. EDWARDS: Assessing the economic value of people and their skills has long been easier said than done. Eric Hanushek presented alternative approaches to measuring human capital to IMF economists earlier this month.

And so in the grand scheme of things, where does—or how significant is human capital in terms of overall productivity? And has that changed much in the past, you know, 30 years or so?

MR. HANUSHEK: Well, we’re not sure about changing. I think it’s probably gotten stronger. But where is it? I like to say in the long run the only thing that matters for a country is the skills of its people, and that’s human capital. Countries that have lots of skills grow faster than countries that have low skills. And, in fact, that’s an easy way to explain what’s going on in Africa and Latin America, where the skills are very low and the countries just aren’t growing in the long run.

Now, around here at the IMF, people are much more concerned about the short-run growth, what’s happening tomorrow and next year. But in the long run, it’s skills and we want to make sure that these are not neglected when we’re concerned about short-run problems.

MR. EDWARDS: And how do they measure that? Can they actually measure the percentage of human capital within the economy?

MR. HANUSHEK: Well, we can. We have some proxies of it; they’re not direct measures. But what we’ve had for the last 50 years, actually, is a set of international tests of skills, of math and science. So you take a math problem and walk it around the world and see how different countries do, and that is actually a very good measure of the ultimate skills that people have. Now, they're still going to go school and so forth, but if we measure their skills it turns out that that explains most of the differences in growth rates across countries by just measuring how well they can do on math and science problems.

MR. EDWARDS: So when you're measuring human capital is one worker or one person equal to one unit of human capital? And, I mean, if a worker has more skills or if this worker is more educated than another are they more valuable in terms of human capital?

MR. HANUSHEK: Well, they are in that sense. I was looking at the growth rate of economies, but for individuals, people with more skills earn more and are essentially more productive. In fact, it varies around countries, but the United States has one of the highest returns and rewards for skills. So if you have skills in the United States, you do much better than if you don't have skills. In some economies it's not as stark of an impact of having less skills.

But the other thing that we know, if you look across countries, most recently we found that countries that are growing faster have high returns to skills. People with skills earn more in countries that are growing faster. And that's consistent with a hypothesis that education gives you the ability to deal with change, with disequilibrium, and so people with more skills are better able to adapt to change. And that's what we see internationally. If a country is growing faster, they're changing more. And countries that are changing more, reward skills more.

MR. EDWARDS: And, you know, speaking of change, with all the technological advances and advances in artificial intelligence, a lot of people have sort of written off human capital as being too inefficient, you know, and robots being more productive. Do you think that human capital or people will continue to play an important role in the economy the way that it's evolving?

MR. HANUSHEK: I definitely do. I think that that's more of a popular media kind of argument that people are obsolete and it's only machines that count. It's people that are making those machines and, more importantly, people are using those machines. And the more skilled people are, the better the machines can be and the more productive they can be. So there's an interaction.

What we've seen, on the other hand, is that people that use to have a good middle-class income with a high school education are in trouble because the jobs that they use to have are being replaced. This is the arguments about manufacturing industries, where manufacturing industries very seldom today have people running around with wrenches and hammers. Instead, they're running around with laptops controlling an assembly line. And so the people that use to have high incomes working in Detroit making automobiles are just in trouble.

And that's one of the big problems that we have in advanced societies today is this large middle class group that hasn't quite kept up with the technology we have.

MR. EDWARDS: And do you think that we're investing enough in providing the education and the skills that people need to sort of get those jobs that you just described?

MR. HANUSHEK: Not quite, at least in the United States. Some countries are; the United States is behind. It comes as a surprise to many people, but if you take these math and science tests I was talking about, the US comes in about 30th in the world of those countries taking these tests. That puts it in the lower half of the developed countries, of the OECD countries, and presents quite a challenge.

Now, the US has been able to maintain its growth and its economy in spite of that for a variety of reasons. The US has one of the best set of institutions for economic growth. It has free and open labor and capital markets, rather limited government intrusion, and other things that economists think help economic growth.

And more than that, it's been able to import people with skills from abroad. We have—if you live in Silicon Valley, as I do, some of the brightest, smartest immigrants in the world who want to come to the US and they're producing for us.

MR. EDWARDS: What you're just describing, it seems to me, it sounds like in this scenario you have an increasing inequality, right, where you have sort of high-paying jobs in technology and where that middle class you described earlier is losing out.

MR. HANUSHEK: You're absolutely correct that one of the things we're seeing is an expansion of the differences in incomes among people, and that's been going on for the last 20 years or so and could get worse. That is a real concern that we have to think about as a society, and all societies have to do this. Other countries have been facing the same growth in inequality and we have to find ways of dealing with that.

Now, my answer in the long run is we deal with it by improving the quality of our schools and giving skills to people and allowing them to be ready for a changing world in the future. Now, there's still some older people that didn't get the skills when they were in school and haven't kept up, and they're in trouble. And so for me, we have to think as a society about how to deal with that, how to take care of the people that didn't get the skills while we develop new skills of the young people for the future.

MR. EDWARDS: That was Eric Hanushek, economist at Stanford University, talking about the economic value of investing in human capital.

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