



Policies to foster human capital†

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Summary

This paper considers the sources of skill formation in a modern economy and emphasizes the importance of both cognitive and non-cognitive skills in producing economic and social success, and the importance of both formal academic institutions and families and firms as sources of learning. Skill formation is a dynamic process with strong synergistic components. Skill begets skill. Early investment promotes later investment. Non-cognitive skills and motivation are important determinants of success and these can be improved more successfully and at later ages than basic cognitive skills. Methods currently used to evaluate educational interventions ignore these non-cognitive skills and therefore substantially understate the benefits of early intervention programmes and mentoring and teenage motivation programmes. At current levels of investment, American society under-invests in the very young and over-invests in mature adults with low skills.

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In response to the new labour market for skills in which the real wages paid to high-skilled and highly educated workers have increased while the real wages paid to low-skilled and less-educated workers have decreased, there is renewed interest in

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policies designed to foster the formation of socially productive skills in economies around the globe. Politicians and social commentators routinely express concern about the political and social consequences of growing economic inequality. A consensus is emerging that increasing the skills of the unskilled will bring them into the modern economy and will alleviate inequality, and that increasing the supply of skilled workers will help to dampen the rising wage or employment gap between the skilled and the unskilled by making skilled workers less scarce and lifting the less skilled into skilled status.

Politicians of all parties in the U.S. agree that reforms in finance and in educational administration are required. Their counterparts in other countries are equally enthusiastic about policies to raise skill levels.

In this paper, I examine the foundations of current policies toward skill formation. I re-examine the conventional wisdom on these matters as articulated by our political leaders drawing on a body of recent scholarship that challenges many of the premises that govern popular policy discussions in many countries. This scholarship suggests that a broader view of the way skills are produced in a modern economy is more appropriate. Once this body of research becomes accepted into the mainstream, the public discourse on skill formation will be substantially altered.

Although I draw most of my lessons from American data and analyses of American institutions, my message applies more generally. Current policies regarding education and job training around the world are based on fundamental misconceptions about the way socially useful skills embodied in persons are produced. They focus on cognitive skills as measured by achievement or I.Q. tests to the exclusion of social skills, self-discipline and a variety of non-cognitive skills that are known to determine success in life. The preoccupation with cognition and academic “smarts” as measured by test scores to the exclusion of social adaptability and motivation causes a serious bias in the evaluation of human capital interventions.

The conventional wisdom espoused by most politicians, educated laypersons and even many academics places formal educational institutions in a central role as the main producers of the skills required by the modern economy. It neglects the crucial role of families and firms in fostering skill, and the variety of abilities required to succeed in the modern economy. Popular discussions of skill formation almost always focus on expenditures in schools or on educational reforms and neglect important non-institutional sources of skill formation, which are equally important, if not more important, producers of the varieties of skills that are useful in a modern economy.

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