Human Capital and global health

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By Felix Stein

Late last month, the IMF/World Bank Group Spring Meeting took place. This five-day conference, held jointly by the IMF and the Bank has evolved into an important event in the development world, as it brings together some of its most powerful people. Here, IMF and Bank leadership present their views of preferred future development priorities, while central bankers and finance ministers discuss the latest trends in economic governance; development officials and business CEOs reflect on their roles in poverty alleviation, while members of the financial press, academia and NGOs work to also make their voices heard.

For the World Bank, the meeting came with a couple of important structural changes, which include a $13bn capital increase ($7.5bn for the Bank's lending arm called IBRD and $5.5bn for its private investment facilitator IFC). Flagship panels held during the event focused on climate change, gender equality and technological innovation. However, the key concept over those five days, was "human capital", a term which featured in the titles of two main panels, and was enthusiastically supported by the likes of Bill Gates, Penny Mordaunt, Secretary of the UK's Department for International Development, and Dr Tedros Adhanom Ghebreyesus, Director-General of the WHO. The idea of human capital is likely to arise more and more frequently in global health governance debates, so it is useful to take a closer look at it.

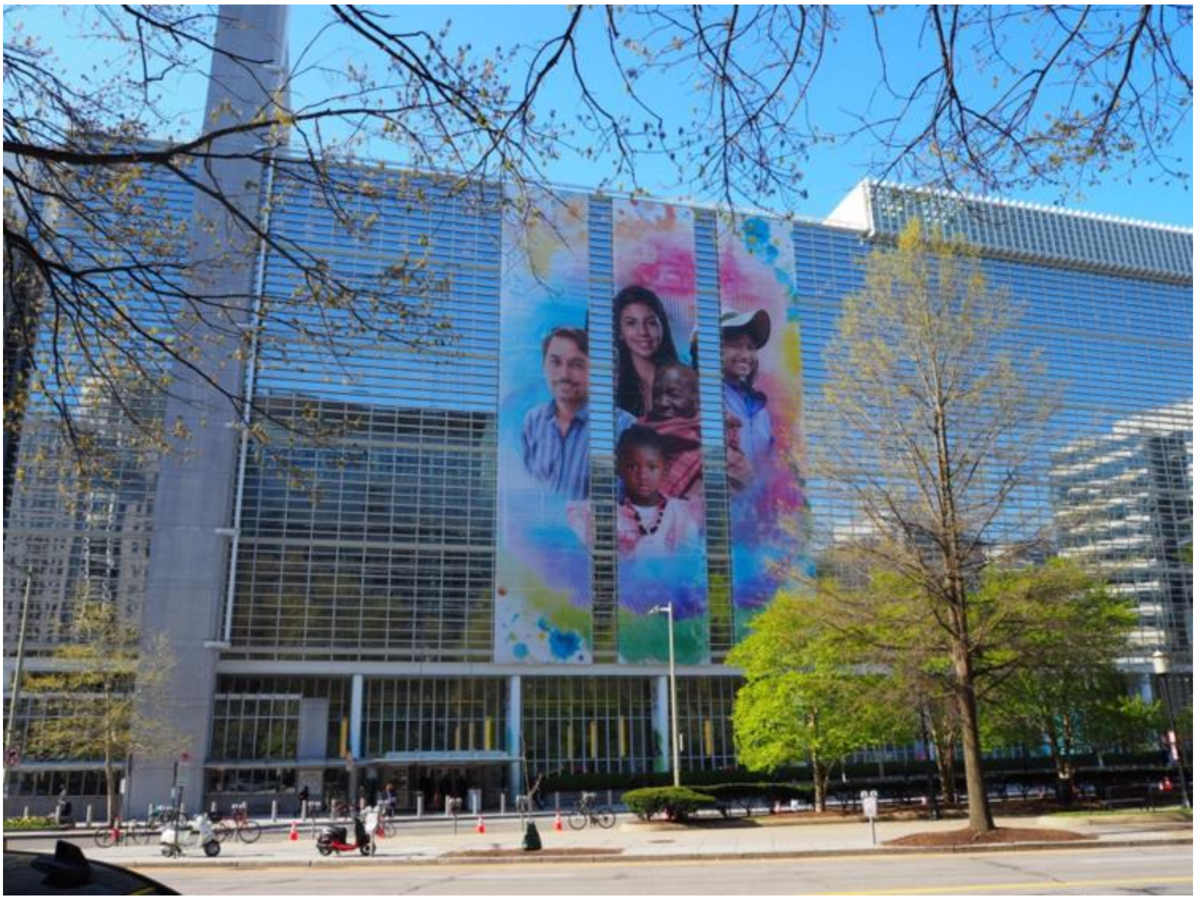

Image 1: The World Bank during the 2018 Spring Meeting

What is human capital?

According to a World Bank publication promoted at the Spring Meeting, human capital is “measured as the discounted value of earnings over a person’s lifetime” (Lange *et al.* 2018: 4). Very roughly speaking, this means that if a person who retires in 20 years is estimated to earn an average of $10k per year, but has living costs of $9k per year, her human capital could amount to around $20k (minus a substantial discount that reflects for example that earnings later in time are considered much less desirable than immediate ones [i]). Human capital thereby assesses human existence exclusively with respect to its potential monetary value, i.e. its impact on national wealth and future GDP growth.

In its explicitly economistic nature, “human capital” is thus not the same as “human development”. As the Bank puts it:

> *The concept of human capital [...] differs from that of human development or human capabilities. The term "capital" denotes a resource that can be used for economic production. A good education has an intrinsic value apart from the fact that it helps workers be better paid. Good health also is beneficial in itself, independent of its impact on production and wages. These important benefits are acknowledged, but they are not part of [human capital in] this research methodology. The emphasis is deliberately and solely on the economic benefits of a productive labor force.* (Ibid: 117)

These economic benefits are substantial: The World Bank currently holds that human capital is the most important component of wealth globally (Ibid: 1). In order to promote this conviction, the Bank will publish a new "Human Capital Index" in October of this year, which will rank different countries according to how much human capital they have.

Three aspects of human capital are worth highlighting:

1. It foregrounds the economic effects of health and education

Human capital as promoted by the Bank does not concern every part of human existence that may be conducive to economic growth. Instead, the concept remains closely tied to health and education. Declines in health or education are held to reduce human capital, while health or education improvements promise more of it. Thus, if governments increase the average years of schooling of their adult population (as a proxy for education) or if they boost their population's life expectancy (as a proxy for health), this is assumed to have a positive effect on human capital growth, and eventually on GDP (Ibid: 148).

While human capital was itself not an intuitive concept for all participants at the Spring Meeting, its popularity seemed to lie in this emphasis on health and education as global development priorities. Marketed under the slogan "#InvestInPeople", the Bank made a plea for the importance of spending on these two sectors that was enthusiastically taken up by UN agencies as well as some civil society representatives.

The Bank embedded its appeal for health and education spending in an economics-based, rather than a rights-based approach, a move that was presented as pragmatic, rather than ideological. As one panel member said, while foregrounding the importance of stopping violence against women and children:

> *When politicians and presidents or prime ministers have to take decisions, they have to think about what [these decisions] mean. And I know you can speak about human rights but that is not usually the way you convince somebody. So I think we should go on and calculate the costs of not doing what needs to be done*.

In positing that health and education expenditure is an "investment" that will eventually lead to GDP growth, the Bank aims to bring both topics directly to the attention of heads of state and finance ministers, rather than their less powerful counterparts in health and education ministries. That said, the Bank thereby also heightens the long-standing tensions that exists between the value systems of healthcare and those of economics, frequently summarised as the problem of "putting an economic value on human health".

2. It is part of auditing all the world's wealth

The Bank's focus on human capital is part of its wider attempts to classify and count all of the world's existing forms of monetary wealth. While economists around the globe tend to focus on GDP as an indicator of economic growth, the Bank considers problematic that GDP "does not teach us about assets that are critical for growth" [ii]. According to the Bank, "the combination of GDP and wealth provides a fuller picture of economic trends and whether they are sustainable" [iii]. In quantifying and monetising global wealth, the Bank replicates idealised accounting practices from business economics, in which businesses should be evaluated based on their income statements *and* balance sheets, and in which personal loans should be given based on both income *and* personal wealth assessments.

Roughly following a classificatory scheme of 'culture-nature-humans-other' the Bank has thus defined and subdivided all existing wealth on the planet as 'produced capital', 'natural capital', 'human capital' and 'net foreign assets' (see image 2). Health and education are thereby subsumed to wider efforts of expanding global economic audit.

Image 2: What is wealth? Available from: http://www.worldbank.org/en/news/infographic/2018/01/30/the-changing-wealth-of-nations

3. It caters to the world's financial markets

Lastly, the creation of the Human Capital Index is meant to facilitate governing health and education policy via putting them at the service of financial markets. In what we have previously described as "the financialisation of global health", the World Bank hopes to convince credit rating agencies, sovereign bond traders and corporate investors to take human capital into account as part of their future investment decisions. If they do, this is supposed to put pressure on developing country governments who invest only small shares of their GDP in health and education to favourably adjust their budgets. As Jim Kim, President of the World Bank Group, put it in a speech leading up to the Spring Meeting:

> *You know, the human capital ranking is […] going to be very controversial. But it's going to raise very fundamental questions. Will S&P and Moody's change their bond ratings based on our human capital ranking? I hope so, OK. Will the IMF begin to incorporate it into their Article 4, which is, at least partly, an assessment of potential economic growth? I think they're going to have to. If all those things happen, then I think we would […] see the money going much more to the community level, because they will have to improve their outcomes […].*
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> *If an unexpectedly low rating on the human capital index leads to, you know, a change in your sovereign bond rating, and all of a sudden your overnight borrowing costs go up, and your foreign direct investment drops, and people are on the streets saying why haven't you invested more in people, then I think finally we'll be at a point where people will take these investments, like girls' education, seriously enough."*

As part of this financialisation of health governance it is worth noting that the idea of human capital is not new. It has come to prominence as part of the Cold War, and has historically downplayed the importance of work, as well the possibility that workers may constitute a social group with shared interests (Fleming 2017). In fact, human capital theories explicitly did away with the Marxist division between workers and the owners of the means of production. After all, according to human capital theories, workers already *are* their own means of production. By declaring every person in the world the owner of their (human) capital, the concept de-emphasizes the importance of unions and workers' rights. Instead, it sits more easily with the increasingly precarious work regimes that consider every employee to be an "entrepreneur" (Ibid). In light of this history, the verdict is out whether or not doctors, healthcare workers and the patients they look after will eventually benefit from the ongoing calls for "investing in people" or not.

Key references

Fleming, P. (2017). What is Human Capital. *Aeon*.

Lange, G.-M., Q. Wodon and K. Carey (2018). The changing wealth of nations, *The World Bank Group*.

Endnotes

[i] i.e. ($10k-$9k)*20. Whether and how the Bank will take costs of living into account as part of calculating the Net Present Value of human capital is not currently clear. This is yet to be made public. For a first idea, see Lange *et al.* 2018: 117-121.

[ii] http://www.worldbank.org/en/news/infographic/2018/01/30/the-changing-wealth-of-nations

[iii] Ibid.