

INVESTMENTS IN HUMAN CAPITAL PAYS THE HIGHEST INTEREST

Aside from being one of the richest men who ever lived, Mr Li Ka Shing is, clearly, a man whose perspicacity is fast becoming legend.

It is a pity, therefore, that his son, Mr Richard Li Tzar Kai, was only half educated and opted to quit the path of obtaining the Holy Grail at Harvard University.

Noting the vast wealth of his father, Mr Richard Li Tzar Kai, probably, determined that it was pretty much a waste of his time, fine-tuning his brain's storehouse of information and that he should get on with the job of making his own fortune, using his father's established financial infrastructure.

Having a very wealthy parent, as history has proved, can often be a negative influence on progeny.

However, notwithstanding that little hiccough in the Family, Mr Li Ka Shing's recent gift of \$HK1 billion to The University of Hongkong is indicative of a man who, regardless of his humble nurture (he never attended any institute of higher learning as a student), realises the value of what is, today, referred to as Human Capital.

This is not the first time that Mr Li Ka Shing has made a gift of material sums of money to institutions of higher learning, but it is the first time that he has gifted such a generous amount of money to an institution of the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC).

For many years, Mr Li Ka Shing has made substantial cash donations to institutions of higher learning in the PRC, proper, and even founded one university in Chiu Chow.

His donations of cash are, nearly always, in the pursuit of the embellishment of Human Capital.

Human Capital is defined as being the sum of the abilities and knowledge of individuals.

It is a measure, if you like, of the quality of labour; and, Human Capital may be accumulated through continuing education.

But the key is '*continuing education*' because to stagnate is to take a retrogressive step.

The computer programmer, who fails to continue to study the latest innovations of his discipline, sooner or later is left by the wayside and is unable to obtain employment in his chosen field.

The Government of the HKSAR does not recognise the innate importance of Human Capital, to be sure, because, when **TARGET** asked the Government how much of money was spent, annually, on Human Capital, this was the Government's answer:

'Sorry that our Economic Analysis Division, the office which is responsible for providing economic analysis, does not have the classification of Human Capital on GDP and thus it does not have any statistics on this category.'

This is the question that **TARGET** asked of the HKSAR Government:

*'**TARGET** would like to know how much of Hongkong's Gross Domestic Product is spent on Human Capital. **TARGET** defines Human Capital as being the sum of the abilities and knowledge*

of individuals.

'TARGET would appreciate an early answer to this question and would request, if possible, to have a 5-year summary of expenditure on Human Capital.'

Spending On Human Capital

India, Thailand, Spain and the People's Republic of China (PRC) all owe their successes, to a large extent, in the concrete gains, made in their respective Human Capital.

Such investments have shaped, and will continue to shape, the destinies of these countries, no doubt.

Human Capital is one of the most, if not the most, important factors in the production and expansion of today's economies.

One notes that, in countries where little money and effort is spent on Human Capital, the growth of those economies continues to stagnate, leading to eventual retrogression.

In order to achieve material increases in **Gross Domestic Product** (GDP = The annual, total value of goods, produced in a country, excluding transactions with other countries), increases in Human Capital are crucial.

South Korea, many years ago, understood the importance of Human Capital and spent a considerable amount of money in investments in its youth.

Today, South Korea is known to spend more than 8 percent of its GDP on education, alone.

The successful countries of today, those whose GDPs are growing at a healthy rate, have embarked on bringing as many of its youth as is possible into higher education, without incurring any quality downgrade.

It has been noted that the financial resources of private enterprise, when gifted to institutions of higher learning, are an essential ingredient for a country's fast-track goal to be achieved.

This is the reason that Mr Li Ka Shing's gift of \$HK1 billion to The University of Hongkong is so important to the territory.

And, only about one month ago, Mr Fok Ying Tung, a close friend of the hoi-polloi of the PRC Government, followed Mr Li Ka Shing's example and gifted \$HK800 million to The Hongkong University of Science and Technology.

Clearly, both Mr Fok Ying Tung and Mr Li Ka Shing realise that education is an investment in the future, an investment which has no equal.

While education is, certainly, an investment in Human Capital, learning is the process of acquiring knowledge and/or skills through study, experience or in teaching.

Knowledge, which is derived from the 14th Century word, knowlechen; to acknowledge; irregular from known, is the awareness and understanding of interconnected facts, truths and information, gained in the form of experience, learning and introspection.

John Locke, the 17th Century Founder of British Empiricism*, said, inter alia, that many of the ideas that we receive via sensations and reflection are, in fact, compounds, consisting of 2 or more simple ideas joined together.

<p>* Empiricism is the doctrine or theory that all knowledge is derived from sense-experience; the doctrine or theory that concepts and statements have meaning only in relation to sense-experience.</p>
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These conceptual compounds are not created ex nihilo, but are the results, not of passivity, but of the mind, actively exerting itself, operating on the ideas that it has to make in order to conceive of new ones.

While such lofty concepts may be difficult for the likes of Mr Li Ka Shing and Mr Fok Ying Tung to be able to comprehend, fully, especially in such a definitive language, actually, both these gentlemen are applying them, daily, in their respective workplaces as they continue to amass their fortunes.

Over the past years, these gentlemen have come to realise, probably subconsciously, that the rapid structural and technological changes that have come about due to internationalisation, have increased the importance of Human Capital, very substantially.

Physical workers are being replaced by machines in richer economies and the pressure is mounting on suppliers of less-qualified labour.

Also, cheaper labour abroad has displaced less qualified workers at home, especially those workers whose educations are limited and whose abilities, likewise, must be limited.

If a rich country does not raise the skill level of its workforce, the alternatives are:

1. To try to shield itself from internationalisation (which is, nearly, an impossibility in today's world), which is, in any case, negative for continuing prosperity;
2. To try to slash the wages of less-qualified workers, an act which is likely to lead to widespread labour discontent, leading to work stoppages, à la British Airways; and/or,
3. Accept higher unemployment, which will certainly lead to coup de force if not a full-scale riot.

When The Process Starts

Education does not start late in life, but at the age of about one year, science has determined.

And education does not stop after a student achieves his university degree.

Education is a continuing process and, as man lives longer and longer, his productive period grows with him; age-related disabilities may be arrested and, in some cases, cures are found for what was, only a few short years ago, chronic and even terminal, age-related conditions.

It has been proved that Human Capital and income are very closely linked.

This is fact, both for individuals and for entire economies.

The PRC Government has proved this to be the case.

Better and longer education through higher Human Capital permits an individual to perform higher, value-added tasks more efficiently and more expeditiously.

Getting back to John Locke, ideas beget ideas; and, ideas become more and more complex as the pieces of sensation, perception and introspection are placed side by side in the intricate mosaic of the human mind.

In summary, therefore, higher Human Capital leads to higher and more output – and a better quality of output, to boot.

As additional Physical Capital (machines and devices, such as the hand-held calculator) raises levels of productivity, so additional Human Capital raises levels of productivity and, perhaps even more important, innovatory productivity.

Output is not increased with industry, endowing unskilled workers with more complicated and expensive Physical Capital.

On the contrary, such a move is quite likely to have an opposite effect and could well lead to labour, rebelling at having to use such complicated machines.

If the same sum of money were invested in Human Capital instead of Physical Capital, the results would, most likely, be much more rewarding for industry.

In a conversation with the Food and Beverage Director of a leading, 5-star hotel in the HKSAR, recently, this experienced official lamented that his General Manager had been complaining that many of the more-experienced staff of the hotel, those who had been trained by the Food and Beverage Director and his staff, were leaving their positions to take up new positions in newly established hotels in the territory.

The response of the Food and Beverage Director was that the staff would have stayed in their jobs had they not been trained.

But which is better, he asked: To have well-trained staff to serve guests of the hotel, staff members, who may be poached by competitors; or, to have badly trained staff, who nobody wants to employ?

The General Manager determined that additional Human Capital was required for the hotel's own good, although he did not use the term, Human Capital, in his response.

A strong argument could be made for a government to tax companies/industries, which do not invest in Human Capital; and, to subsidise, in part, at least, those companies/industries, which do invest in Human Capital.

There is a very strong case for a government to state, definitively, that the sum is not necessarily equal to the parts where investment in Human Capital is concerned.

The question arises, however: Do social returns exceed individual returns?

Whereas, the individual is primarily on the receiving end of the effects of investments in Human Capital, an orderly society, as a whole, invariably stands in the queue to reap the benefits, also, from such investments.

Investment in education, therefore, has a knock-on effect, right down to an economy's proverbial boot-straps.

In closing, in the words of Benjamin Franklin (1709-1790):

'Investment in education pays the best interest.'

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