"Human Capital in the 21st Century"

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President Park, Honorable Ministers, Ladies and Gentlemen,

Thank you for the warm welcome and kind introduction. It’s wonderful to be back in Korea. I’ve just come from a four-day trip to the Horn of Africa, where I saw some inspiring efforts to promote peace, stability and development. Understandably, much of the news from the continent is focused on the Ebola epidemic, its terrible human toll, and efforts to extinguish it. On my way back from East Africa, I visited Ghana, where the United Nations has established the first-ever UN mission focused on stopping the spread of an infectious disease. While we are making progress on fighting Ebola in Guinea, Liberia, and Sierra Leone, we were much too slow in responding, and we still face an uphill struggle to bring the epidemic under control. Ebola continues to represent a serious threat, not only in terms of human lives, especially in the three most affected countries, but to the regional and global economies as well. We were not prepared for this outbreak and, while all of our focus must remain on fighting it, we must also prepare ourselves for the next epidemic that will surely come and may be even more deadly.

As serious as the Ebola crisis may be, we must not forget that the virus is presently confined largely to the three countries in sub-Saharan Africa. There are, in fact, about 900 million people in the region who live in countries free of the virus on a continent that is still very much open for business, growing fast, and a great opportunity for investment. Indeed, according to the World Bank Group’s projections, sub-Saharan Africa’s economy is on target now to grow more than 5 percent next year. The Korean government and Korean
companies have a presence in Africa, but they are lagging behind their neighbors in exploring the tremendous opportunities on this vast and rapidly evolving continent. While our focus today is on the role of education in growing the Korean economy, I would urge both the government and the private sector to commit to deepening its relationship with Africa, in both humanitarian and economic terms. The benefits to both Africa and Korea will be enormous.

The World Bank Group estimates that Korea will grow at about 4 percent in 2015, which is quite strong compared with other OECD countries. I’m pleased that, despite this positive outlook, there is a lively debate here about ways to continue this success, including through educational reform. Indeed, I was grateful last December when, during my last trip to Korea, President Park invited the World Bank Group to join this discussion. Since that time, we’ve worked closely with the Korean Educational Development Institute and other think tanks to do what we were asked – evaluate ways to promote creativity in Korea through educational innovation. We’re circulating the initial results of the World Bank’s contribution today in a background conference paper entitled *Intelligence, personality and creativity: Unleashing the power of intelligence and personality traits to build a creative and innovative economy*. I’ve read the paper, and its findings inform my views about human capital in the 21st century, and Korea’s opportunity to improve its already impressive success in developing human resources.

The title of this speech – Human Capital in the 21st Century – deliberately echoes the title of French economist Thomas Piketty’s recent best-seller, *Capital in the Twenty-First Century*. Piketty argues in his book that global capitalism tends toward inequality, especially in periods like the present where growth, on average, is slow. He also suggests that two things have primarily fostered greater convergence, both within and between countries, in the evolution of global market capitalism – the diffusion of knowledge, and investment in training and skills of people. At the World Bank Group, boosting economic growth in all our client countries is a top priority because we know that income growth was responsible for about 70 percent of our success in lifting people out of extreme poverty over the last few decades. Growth has also enabled many countries to provide better access to health care, education and employment, but only when countries themselves have focused on growth strategies that were inclusive. To promote inclusive growth, the World Bank Group works to facilitate the diffusion of knowledge and support countries in investing in the productivity and skills of their people. This is in line with the two overarching goals that we have set for ourselves – to end extreme poverty by 2030 and to boost shared prosperity.
So what I’ll be talking about today is not merely how Korea can continue its impressive record of economic growth in the rapidly changing landscape of global capitalism; I’ll also be speaking about ways it can do this so that all of its citizens – young and old, women and men – share in the gains from that growth. The development of human capital with broader and deeper skills, and the liberation of that capital so that it can be applied more productively, are goals that most countries share. As I will discuss, education plays a central role in this process, and given the role that this country has played in my own development, I’m grateful for the chance you’ve given me to speak about these issues here today.

I was born in Korea and spent the first five years of my life here, before moving to the United States, where I grew up. I first returned many years later, when I was 24 years old, in 1984, as a graduate student and researcher. I lived in Seoul for a good part of the next four years, studying the Korean development experience, and relearning the language. Upon my return to the United States, I wrote my Ph.D. dissertation on the Korean health care system. I also spent many days, and especially nights, learning about this country and its many charms. So coming to Seoul always brings back good memories. Indeed, as I will explain, that period was one of the most important of my life, as it set in motion an appreciation of both the fundamental commonality of human experience, and the importance of social, cultural and economic differences between social groups, nation states, and even entire regions.

When I arrived three decades ago, Korea seemed new to me, despite my birth and parentage. I struggled with the language and the culture. Some of the cultural norms and patterns were familiar from growing up with Korean parents, but there were also many things that were vexing to me, even as my language skills improved.

Those struggles forced me to grow personally in so many ways. For example, I reconnected with my family and cultural history – an important experience for an immigrant who, in the United States, at times felt like an outsider. This helped me come to terms with my dual identity, and develop a much deeper understanding about my place in the world. I learned to be open to new experiences, embrace uncertainty, and adapt to social situations where the rules on the proper way to act were both complex and unfamiliar. Most importantly, I learned the craft of ethnography, the practice of listening deeply, and suspending one’s own social and cultural assumptions to learn how the “other” constructs his or her world. In every job I have had, and in every situation in which I find myself, I try to apply the classic ethnographic method of “participant-observation” to really understand what’s going on. At the end of the day, it’s not such a complicated method – Koreans call it using your “nunchi”
— and my professor, the great Sally Falk Moore, told us once that it's just a matter of walking into a room and asking yourself, “Who the hell are these people and what do they want?”

Without question, the time I spent in Korea pushed me to develop socially and emotionally. The codes of conduct in Korean social life were so much more demanding and precise than anything I had experienced in the United States. There was level upon level of complexity in language, and even mannerisms that required much more attention than the typical college student in the United States would give to a standard social setting. The kind of experience I had in Korea helps young people to develop competencies that education experts call “non-cognitive” skills, like empathy, confidence, communication, motivation, perseverance and resilience. Researchers have argued that these skills are every bit as important as the so-called “cognitive” skills, like language and mathematical reasoning, which are often the focus of students’ classroom attention.

Taking on new challenges, solving problems creatively, and working across different backgrounds and cultures, will be important tasks for the vast majority of human beings in the 21st century. The increasingly global, technological and services-based nature of the economic interactions of high- and middle-income countries makes these attributes essential to the success of creative and innovative economies. Based on what I have seen and experienced over my career, people can do this best when equipped with both cognitive and non-cognitive skills. The World Bank Group’s background paper supports the notion that a combination of these skills is essential to promoting creativity. Together, these qualities empower people to identify problems of value, resolve them based on new ways of thinking, and work persistently and collaboratively to overcome difficult challenges.

As we state in the draft report, Korea is well positioned to flourish in this environment, due largely to its citizens’ high-level of educational achievement, and the non-cognitive skills this success requires. However, to maximize inclusive economic growth, more can be done. For example, the process of developing cognitive skills could be made less painful by reducing the social and monetary costs presently associated with Korean students’ education. The system could also build in opportunities for students to develop a broader range of non-cognitive skills through interest-based, rather than test-focused, learning. Korean mothers and fathers can be assured that balance – good study habits AND time for children to pursue their passions, rather than only late nights studying for tests – is the preferred route to success and happiness.
Korea can also promote a creative and innovative economy through changes beyond the education system, so that the country uses its substantial supply of human capital more effectively. Of special importance are more open and inclusive work places that reward ideas based on quality not hierarchy, and increase women’s labor force participation, earnings and career advancement. New approaches in these areas should enable Korean workers to drive growth in GDP, productivity and living standards for years to come.

Cognitive ability, as measured by IQ, is one of the principal determinants of a student’s academic success. How a student scores on a test that measures verbal and mathematical abilities tends to correlate strongly to the student’s ultimate level of academic achievement and a country’s economic growth. Because of these expectations, educational systems place great emphasis on developing IQ-related skills in students. For the same reasons, when we compare the quality of national educational systems, we do so based on their ability to produce students who generate the best outcomes on standardized tests of these skills. And countries invest billions of dollars into educational systems with the aim of improving these scores.

But research also shows that personality traits have a positive impact on academic performance and work place outcomes, because they affect the efficiency of people’s development and use of their intelligence. For example, the personality trait of “conscientiousness,” which academic literature associates with being organized and dependable, and exercising self-control, has been shown consistently to predict achievement in school and professional life. This seems intuitive given that developing cognitive skills, high-levels of academic success, and solving difficult problems in professional settings, often require hundreds, if not thousands, of hours of personal attention, focus and dedication.

Conscientiousness is closely related to a non-cognitive skill some scholars have called “grit,” which is defined as “the tendency to pursue long-term goals with sustained zeal and hard work.” According to Katherine Von Culin, Eli Tsukayama, and Angela Duckworth, the motivation behind someone who exhibits grit is the pursuit of engagement and meaning, rather than pleasure. Grit also appears essential to characteristics commonly associated with creativity. For example, researchers suggest that creative people show an interest in their field at an early age, have built expertise in a specific field over several thousands of hours, and typically demonstrate patterns of hard work and breakthroughs as a result of their determination. I think the notion of grit is especially important to consider here in Korea. So many young people are told to pursue certain socially acceptable or admired
fields, whether or not they have a passion for them. I think this is a real weakness in the system, and more attention should be paid to awakening the passion in young people for vocations and fields of their own choosing.

Studies also show that non-cognitive skills have positive impacts on an individual’s employability, productivity and earnings. My own experience running Partners In Health showed that smart employees weren’t enough for success. We wanted people who would dedicate themselves to tasks, work well with others, and enthusiastically take on new challenges. Non-cognitive skills like emotional stability, dependability, openness, and confidence, create these qualities in workers. These and similar non-cognitive attributes, like believing in self and one’s ability to control events, are among the best predictors of job performance, job satisfaction, and higher income.

Our understanding of non-cognitive skills continues to develop – in fact, it’s relatively new that we even try to measure them – so we need more research to understand more fully the role they play in fostering creativity and creating a productive work force. However, research suggests that, like cognitive skills, they play an integral part in producing innovation. Based on this knowledge, we at the World Back Group think that an education system can encourage creativity by helping students acquire a healthy mix of cognitive and non-cognitive skills. The way forward is to provide diverse approaches to learning, allowing for greater alignment between students’ own interests and educational offerings.

Based on our review, the Korean education system shows some of the attributes that we believe foster creativity in students. For instance, it is highly effective at producing graduates with enduring cognitive skills. Korea is consistently among the highest-performing countries in international assessments of numeracy and literacy, and evidence suggests that these competencies persist into adulthood. International test results also indicate that Korean students show exceptional levels of creativity in certain areas: In 2012, for example, this country’s 15-year-old students’ average scores were the highest among the participating countries in PISA’s inaugural creative-problem solving assessment. Succeeding in Korea’s highly competitive and criticized university entrance examination process does require a lot of grit, creating a powerful incentive for students to develop a non-cognitive skill that makes for productive and potentially creative workers.

The difficulty seems to be that, within Korea’s education system, this skill development process is painful, may direct students’ attention away from more productive pursuits, and might even have a negative impact on social cohesion. For example, students endure
substantial psychological costs from competition and long hours of work. In 2012, the same international tests that showed Korean students scoring in the top five internationally in numeracy and literacy, indicated that they were also the least happy with their school experience. These students’ intense focus on, and Korean society’s value preference for, cognitive skills may also result in young people missing opportunities to develop non-cognitive or technical ones. Depending students’ interests and abilities, this may result in them forgoing fulfilling careers and lead to inefficient educational expenditures for the national economy.

Korean families also bear heavy financial and personal costs as the country’s demanding university admissions’ process has spawned widespread private tutoring and increasing demands for parental involvement in educational activities. This, in turn, may undermine the country’s national spirit by entrenching inequality: The country’s lowest income earners are far less likely to be able to afford expensive tutoring or have time to dedicate to directing their children’s education.

There also appear to be barriers preventing Korea from fully leveraging the significant skills its education system produces. For example, anecdotes suggest that, in professional settings, opportunities to correct mistakes, produce better outcomes, or bring forth new ideas – the building blocks for creativity – are missed, because of rigid hierarchies based on age or rank. Perhaps the most famous story in recent memory is the tale of Korea’s men’s national soccer team. According to one report, “[f]or years, the Korean soccer-development program rewarded family ties, prestigious academic backgrounds, and seniority over talent.” However, at the 2002 World Cup, after FIFA had ranked the men’s team 42nd in the world, the team finished fourth – the highest finish to date in the tournament of any team from Asia. Many attribute this success to the team’s coach, a non-Korean who incorporated widely practiced coaching strategies that were nonetheless new for Korea. For example, his decisions on player selection and playing time were guided by players’ skill rather than their age, family background or experience – an idea that seems so commonsensical but which was disruptive here.

In my view, getting past rigid hierarchies in all aspects of Korean social and professional life, whether in the public or private sector, in education or even in sports, will be a major challenge. However, it is also the surest way to know whether this country is willing to make the kinds of changes that will be required to compete in the 21st century. Can corporate CEOs listen to their employees from all ranks to make the business grow? Can university
professors encourage their students to openly challenge them in class? Can mothers-in-law listen to their daughters-in-law to build harmony in the family? Some of these things are happening; however, at the World Bank Group, we are convinced that Koreans can and should be leaders in the world in breaking down hierarchies, just as they are in so many other areas.

Data also show that Korea is not properly leveraging the huge pool of productivity and creativity among its female citizens. In 2012, more Korean women than men graduated from university. Yet in 2013, only 55.6 percent of Korean women between the ages of 15 and 64 participated in the labor force, compared to 77.6 percent of men. Although the percentage of Korean women in the labor force has risen significantly over time, in 2013, it was still below 62.6 percent, the average rate for women in OECD countries. For Korean women between the ages of 35 and 39, the difference between their labor force participation rate and their counterparts in OECD countries, reached 16 percent, and this difference continued to be nearly 10 percent for women between the ages of 40 and 44.

There are studies that suggest that a more efficient use of this human capital would have substantial economic benefits for Korea. For example, a recent report found that greater female labor supply would add to economic growth. In Korea specifically, a full convergence in the labor participation rate between men and women over 20 years could boost GDP per capita growth rates by more than 0.5 percent annually. It would also avoid the looming decline in the size of the country’s labor force overall. In 2008, Goldman Sachs concluded that narrowing Korea’s gap in labor force participation rates could significantly increase personal income as well. It estimated that efforts to reduce the gap had the potential to push per capital income 5 percent higher than the firm’s base line projections by 2020.

Korean companies also appear to be undervaluing this outstanding female talent pool. For example, in 2012, the average median wage for Korean women was 37.4 percent less than for Korean men, the biggest gender gap among OECD countries. Also, in 2010, Korean women comprised only 2 percent of corporate directors, compared to 10 percent in the Philippines, and 7 percent in China and Thailand.

As described in the draft report and companion reports from Korean think tanks, there are a variety of things Korea can do to remedy these shortcomings, and develop and apply the human capital it needs for a creative and innovative economy. Indeed, I’m happy to see that President Park’s government and the private sector are already moving forward with some of these ideas.
For example, the World Bank Group supports the government’s effort to broaden beyond test scores the metrics relevant to Korea’s university admissions’ process. Our view is that, given the cultural and commercial importance attributed to university credentials, this process sets the context for much of the behavior of administrators, teachers, parents and students toward children’s education. As a result, it is a powerful way to channel their choices in directions that increase student happiness, reduce costs to parents, and open up avenues for social mobility. We expect a broader approach to qualifications for admission to provide important incentives for students to explore and prove themselves across a wider range of activities and interests. This, in turn, should lead to the development of a greater diversity of non-cognitive skills, and provide room for greater creativity. I saw this work first-hand when I was President of Dartmouth College, and I think it can work here, too.

In the private sector, companies like Daum Communications are reportedly focusing on steps to make younger employees feel freer to express ideas and improve communication and teamwork. At Daum, employees are encouraged to refer to each other by English names, instead of by their positions or seniority. Naver Corporation has likewise sought to discontinue employees’ use of titles to increase the informal nature of the work place and make it feel more open. These are similar to steps taken several years ago to prompt risk taking and creativity at SK Telecom, which reduced the number of employee titles, relaxed its dress code, and began to assign employees tasks based on ability rather than seniority.

I am also encouraged that, earlier this year, the Korean government established the Task Force on Gender Parity and Empowerment of Women, in collaboration with the private sector and other actors, to improve women’s labor force participation and reduce the compensation gap. The task force’s inclusion of 54 of the country’s major corporations gives me confidence that it can make real and widespread change happen. Combined, these companies’ revenues account for more than 50 percent of Korea’s 2013 GDP. Participating corporations reportedly have plans to, among other things, double the number of women in managerial positions in the near future, and establish a “returnship” program – as CJ Group has done – to train and recruit women seeking to re-enter the labor force. To succeed, though, commitments to women’s inclusion must be enduring, and top corporate leaders must take personal responsibility for their success – chief executives, in particular, must make sure their organizations follow through on these initiatives.

It occurs to me, then, that human capital in the 21st century may be conceptualized as a balance of factors – an individual’s non-cognitive and cognitive skills, and the creativity of young and old, women and men. Korea’s drive for a creative and innovative economy is
therefore a challenge that followers of Confucius would appreciate. Like yin and yang, what lies ahead is a process of harmonization to ensure the balance of these things. Cognitive and non-cognitive skills complement each other: A young person who develops both types of skills is bound for success and happiness. Women and men, young and old, are also different, yet bring peace and equity to societies that encourage their active participation in the workplace.

Korea is a country of great accomplishment. Its continued success depends on tackling difficult issues like the rigid hierarchies that limit the full participation of all members of society in social and commercial life. It must nurture young people to develop emotional stability, dependability, openness, and confidence; it must include women and youth as equals in its corporate culture. If Korea finds this balance, I predict the rate of its achievements will even accelerate. Korea’s current national dialogue on how to promote continued rates of economic growth and increases in living standards is part of this progression. I am grateful that you have included the World Bank Group and me, a son of Korea, in this critically important conversation. Thank you very much.