OPINION PIECE

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EDUCATION AND HEALTH AS INDUSTRIAL POLICY

Human capital is among the most important drivers of long-run economic growth and industrial development (Hanushek, 2013; Hanushek and Woessmann, 2011; Jones, 2014), yet it is frequently overlooked in discussions of industrial policy. As governments and business groups search for ways to boost economic growth, targeted measures often take precedence over basic investments in education and health. This is a mistake.

Economic growth is fuelled by people. An economy's capacity to produce is driven by the vitality, skills and innovation of its population. Without education, individuals have limited opportunities to imagine, create and build the products of today and the industries of the future. Without health, societies have neither the capacity to produce nor the appetite to consume the goods and services that form the backbone of industry. The COVID-19 crisis has demonstrated with unflinching severity the critical role of public health in the modern global economy. At the same time, the pandemic has highlighted the necessity for broad-based education, especially scientific literacy, as an essential determinant in countries' success in beating back the virus. No industry can thrive for long without the twin foundations of public education and health.

Education and health are not simply necessary preconditions for economic success. They are also critical drivers of frontier growth, particularly in high value-added, high-innovation sectors of the economy that depend on the cognitive skills and creativity of the working population (Ciccone and Papaioannou, 2009). In many such sectors, virtuous cycles can emerge: investments in human capital can increase a country's ability to compete globally in high-value industries. Growth in these industries expands the job opportunities and incentives for future educational and skill attainment by younger workers, who subsequently invest more in human capital, further deepening a country's competitive position in the future (Atkin, 2016; Bajona and Kehoe, 2010; Blanchard and Olney, 2017). Even small initial investments in human capital can yield significant economic returns over time.

Another important advantage of human capital investment is that it does not require governments to make risky gambles on future conditions in particular industries. It is notoriously difficult to "pick winners," and far too often, well-intentioned industrial policies end up betting on the wrong horse, wasting precious fiscal resources that, in hindsight, would have been better directed elsewhere. In contrast, investments in human capital strengthen a country's most important and flexible resource – its workers – who will naturally gravitate toward the most dynamic sectors, provided that labour markets are flexible and transparent, and that educational opportunity is broadly shared. Workforce flexibility also plays a critical role during hard times: healthier and more educated workers are more able to adapt to negative shocks and unexpected changes in the global economy. Economic resilience depends critically on workers' versatility, which depends in turn on individual health, public health, high-quality universal education and access to lifelong learning.

Finally, but most importantly, human capital investments are two-fers – "two for one" investments. Not only do investments in education and health boost economic growth, but they also contribute directly to individual and societal prosperity. The ultimate goal of economic development is to serve humanity. As key drivers not only of economic dynamism and resiliency, but also of the fundamental determinants of human progress, education and healthcare rank among the most vital and highest-return investments countries can make.