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HUMAN DEVELOPMENT 2: Curious Reversals

The on-going shift to the knowledge economy is being accompanied by curious, and often pleasantly surprising, reversals in perspectives.

1. Ours is now a service economy

The industrial sector is much more dependent on capital than the service sector. A demonstration of this fact occurred after the assassination of Ninoy Aquino. In the aftermath, billions of dollars left the economy, peso value plummeted, Central Bank issued treasury bills at unheard-of rates to attract back the dollars, interest rates climbed above 40% and inflation followed suit.

The following year, our GDP from industry dropped very sharply while GDP from services dropped slightly. 1984 was the crossover year when our services GDP surpassed our industry GDP — and the gap has widened ever since.

The Philippines graduated to the services economy, not via the normal Colin Clark hypothesis but via the 1983-84 capital flight triggered by a political event. Since then, more of our employment and GDP have been provided by the services than by the industrial sector. Also, services have become an important element in our foreign exchange earnings from abroad.

The Department of Trade and Industry may have to shift priorities, and convey this by calling itself a Department of Trade, Industries and Services.

2. Knowledge assets appreciate with use

A professional who stops practicing “deteriorates”. The market value of an executive generally increases with longer experience. A professor-consultant learns more and gets better at what he does the more he teaches and consults. His consultancies improve his teaching, and vice versa.

Isn't this strange: while industrial assets depreciate with use, knowledge assets appreciate with use! For knowledge assets, maintenance need not be an expense!

3. Not just maximization of commodity output

In the knowledge economy, human development, learning and knowledge innovation have become the dominant drivers of economic growth.

What are the implications?

In the emerging knowledge economy, maximization of innovation and human productivity must be the development goal, more than solely maximization of commodity output, which is the mindset in the industrial economy.

Once economic planners grasp this paradigm shift, many things will be reversed. The human development cycle begins with the mother, afterwards includes the family and then when the child reaches the age of seven, continues with the formal school system.

93 — Maximize knowledge output,
not just commodity output

Three other curious reversals of perspectives emerge.

4. Not all expenditure on services is consumption

The contribution of mothers is the most crucial service in the human development cycle, and yet it does not enter into our GNP calculations. It is an important form of investment but because it is not bought and sold in the market, and it is not recorded and accounted for, it is technically part of the “underground economy” or the “informal economy”!

The National Statistical Coordination Board, the government agency responsible for monitoring the economy and computing GNP statistics, had successfully developed a satellite accounting system to track natural or environmental capital. I am referring to the Environment and Natural Resources Accounting System. They are planning to develop another satellite accounting system — one more geared to the knowledge economy — for tracking human and intellectual capital.

94 — Track intellectual capital, not
just physical/financial capital

I hope NSCB corrects this technical omission in human capital accounting. In fairness to mothers, teachers and tutors, economists and accountants must invent a new concept: investive service. Not all services are consumption!

95 — Services for building
intellectual capital are investments

5. Households are producers, and firms are consumers?

From this new viewpoint, households and schools are actually not consumers; they are producers — of human resources and knowledge. The factories and corporations are not producers; they are consumers — of human resources and knowledge!

96a — In the knowledge economy
households/schools are producers

According to Tom Stewart (“Intellectual Capital: the New Wealth of Organizations”, Doubleday, 1997), corporations do not own human capital; they rent them from their employees!

6. Governmental support to producers of human capital

If government policies and structures are to be reinvented toward this paradigm, we must acknowledge the key initial roles of the mother and the family in the knowledge economy. If we have a Department of Trade and Industry to assist industrialists and merchants, then we should equally have a Department of Child Development to give crucial assistance to families and child development centers (CDCs) for bringing up smart children for the knowledge economy. After the age of seven, responsibility can be passed on to the Department of Education.

96b — Families and CDCs deserve government support

7. Change mindsets first

These are indeed curious and strange reversals. They seem strange to one who views them from old mental boxes, but indeed they are necessary for survival and excellence in the knowledge economy.

But before policies, structures and procedures can be changed, our thinking must first change.

Listen to Gregory Bateson:

“The problems in the world stem from the difference between how we think and how the world works.”