



## **The LISBON COUNCIL**

### **The Schuman Lecture**

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**“Human Capital: Europe’s Next Frontier”**

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## **“Human Capital: Europe’s Next Frontier”**

Mr. Chairman. It is an honour to be asked to present a lecture associated with the name of such an important figure of the 20<sup>th</sup> century. Robert Schuman’s pragmatic vision played a vital role in launching what has become today a European Union of 27 nations, with more likely to join.

It was Robert Schuman, as the Foreign Minister of France, who on May 9, 1950 made his bold proposal to place French and German steel and coal production under a common High Authority, in an organization open to the participation of other countries of Europe.

This, Schuman said, “should immediately provide for the setting up of common foundations for economic development as a first step in the federation of Europe.” Schuman envisaged “a wider and deeper community between countries long opposed to one another by sanguinary divisions.”

But he was also wise enough to recognise that this would be a long road, with unification deepening on a step-by-step basis. As Schuman put it, “Europe will not be made all at once, or according to a single plan. It will be built through concrete achievements which first create a de facto solidarity.”

Even today, Europe remains a work in progress. But what a project. Today, the European Union has brought together nearly 500 million people with a GDP, if it were the GDP of a single country, that would be the largest in the world.

It is no wonder that the date of the Schuman Declaration, May 9, is now celebrated as Europe Day.

Although the region faces new challenges at the start of the 21<sup>st</sup> century, it is important to keep in mind two great accomplishments of the Europe that Schuman envisaged and which came to pass.

First, the decision by France and Germany, and other nations of Europe, to draw a line in their history, ending centuries of costly conflict. This is one of the most inspiring examples of a group of countries making an explicit decision to build a future based on peace, co-operation and respect.

Second, the creation of the European family has led many countries with undemocratic political regimes and non-market economic systems to undertake fundamental transformation. The advantages of EU membership have been one of the most effective mechanisms to encourage reform.

There is, today, a very legitimate desire to maintain those features of European society which make it the envy of the world. But pessimism has been growing in the region – a fear of globalisation, a feeling of defensiveness, while an ageing population is raising concerns about the viability of pensions and health care. There is a fear that the future has passed to Asia and that Europe's place in the world is declining. This is not what we think at the OECD. There is much to be done to improve European economic performance, but the goals and visions of excellence are already established and can be achieved.

What needs to be done is to advance the reform agenda so that Europe is fully plugged into the knowledge economy.

The critical connect, I believe, is that Europe has to improve its productivity. According to the Lisbon Council, there are good news as the rate of productivity growth seems to start picking up. A number of European countries – Sweden, Belgium, Germany and the UK – even outpaced the U.S. It remains to be seen whether this is simply a cyclical phenomenon or the start of a sustained improvement. However, in general, productivity in Europe still lags behind other dynamic regions. Productivity is the one most important single indicator that informs us about the health of an economy. It matters because, over time, it leads to higher growth that supports a sustained rise in living standards.

Many of Europe's problems, particularly its disappointing economic performance in the last years, can be linked to poor productivity performance. Over the past decade, labour productivity growth in the European Union has averaged 1.8 per cent a year, compared to 2.1 per cent in the United States.

Productivity is about reforming labour and product markets to improve flexibility in the economy and to encourage innovation through competition. But it is also about creating the incentives and environment for entrepreneurship and responding to the new opportunities from advances in technology, including the rapid deployment and diffusion of new ideas. It is about being a leader in adopting new technological infrastructure, such as high-speed broadband, which is an incentive to develop all kinds of new applications and software.

It is also about investing in research and development and improving the links between universities and business, and building the capacity to take new ideas from research laboratories and convert them into commercial success. It is, as well, about ensuring financing systems that can fund the risk and uncertainty that surround new technologies.

All of this matters because the jobs and wealth for the future will come from new products and services, or new ways of doing things. This will be about organizational and institutional change as much as it is about scientific and technological change. It will depend on smart and innovative people.

All of this starts with people, with education and lifelong learning, with flexible skills and capabilities, and a self-confidence that is open to innovation and change.

So for future prosperity we must ensure a system of high-quality education, starting with early childhood, so that we have a skilled and innovative population that can meet the new challenges – and opportunities – of the 21<sup>st</sup> century. We need an education system that turns everyone into a lifelong learner and an innovator.

But the kind of education system for the future may be much different from the one many countries have today. This is the focus of much of our work at the OECD. We are concerned not only with the formal school system but with early childhood development, vocational training, the importance of university education in a knowledge economy, ongoing employee training and the growing importance of lifelong learning.

The concept of human capital has a long history in economic thinking going back to the grandfather of economics, Adam Smith. He believed that economic progress was driven not so much by numbers of people as by “the acquired and useful abilities of all the inhabitants or members of the society.” At the OECD, as our work on “sources of growth” shows, a significant part of the big productivity gains of the past years come from the increased schooling and capabilities of people, as well as technological advances.

We know that Europe as a whole is not doing well enough in education. Although some countries do very well, others do poorly. Test results from the 2003 PISA survey on the achievement of 15-year-olds in mathematics, for example, found great variance between European countries. Of 19 European Union countries surveyed, eight, or nearly half, were below the OECD average score, some significantly so. A similar variance was found in reading and problem-solving.

Students who under-perform have a lower possibility of graduating from upper secondary education or pursuing successfully a tertiary education. This affects both their own lifetime chances on employment and income but also weakens the capacity of a country to adjust to globalisation and technological change by moving up the value-added ladder.

But it was also a European country, Finland, which achieved the highest average score among OECD countries around the world. It is worth looking at what makes this country so successful.

There are many explanations, but perhaps the most fundamental is that Finland has placed an enormous priority on delivering a good education for young people. This is an issue of social equity and the goal of a knowledge-based society

The Finnish system starts with a strong investment in early childhood development, followed by a primary and secondary school system where the goal and responsibility is to ensure that every single student succeeds.

The Finns invest in a high quality of teacher education and society holds teachers in high esteem. While there is a standard curriculum, teachers are given wide latitude in how the curriculum shall be interpreted and applied. There is a strong commitment to equality, so that students, regardless of family socioeconomic status have access to the best education. Finns also take care of children that are lagging behind and nobody is allowed to fail.

Unfortunately, Finland is almost a special case due to all the reasons I have just mentioned. In our recent report on how well member countries are implementing structural change, our *Going for Growth* report, education reform was highlighted as a priority area for 16 of the 19 European Union countries surveyed.

The issue is not simply one of spending. More Euros don't necessarily mean better results. In primary education, Finland ranks 8<sup>th</sup>, and in secondary education 9<sup>th</sup>, among European Union members in spending per student. The United States is one of the highest spenders on primary and secondary education but gets poor results overall in international tests. In Europe, Luxembourg is the highest per

student spender but on the PISA mathematics tests its students scored below the OECD average.

For example, Finland spends \$6,500 per student for primary, secondary and post-secondary non-tertiary education, compared to almost \$9,000 in the U.S. and \$14,000 in Luxembourg.

As Finland shows, the design of the system, its goals, and the education and empowerment of individual teachers and schools are what really matter. While Korea's system is different, it is another country that has made high-quality education a central part of its economic and social strategy.

In essence, this means taking a fresh approach to education, one that is more open to experimentation, to new techniques, to competition and diversity.

We have to look at how new technologies can assist learning. Can the iPod become a learning tool? Or the \$100 computer – this is a truly exciting initiative to provide children around the world with opportunities to explore, experiment and express themselves – it could become a major force for discovery and feed curiosity. We have to find better ways to inculcate young people with a love of learning.

These encouragements, of course, must be sustained through life. For Europe that means, in particular, strengthening the role of tertiary education. A key reason for focusing on early childhood development is that it puts more young people on the path to tertiary education.

As the European Growth and Jobs Monitor published yesterday by the Lisbon Council states, “in the knowledge age, nothing counts more for economic success than the educational qualifications of the workforce. A country with a high percentage of tertiary education graduates is generally credited with greater innovative potential and a higher ability to move into high value-added sectors of the economy than a country featuring a lower share of graduates.”

This is the pool of people available for innovation. In most parts of Europe, the proportion of young people who pursue a tertiary education is far too small. While on average 18% of Europeans hold a university degree, Korea and the US show considerably higher numbers with around 30%.

But the story does not end here. Universities in Europe are not living-up to their potential. Funding is too low, and the rewards for excellence are not there yet. Links to the business world are also weak. Europe has no shortage of brilliant minds, but they are locked away in low performing institutions.

The role of universities is central to the success of societies in benefiting from globalization and technological change. The students who graduate are themselves the key sources of future innovation, spread out among businesses, government, academia and other groups in society. But universities are also important for the new ideas they generate, and the role they play in building the competitiveness of cities and city-regions.

European history is a remarkable story of creativity, discovery and progress by people who were not afraid to take risks. The combination of a steadily expanding knowledge base, the spread of literacy and education, and an innovative or entrepreneurial spirit has been at the root of Europe’s past success.

The same holds true for the future. An openness to the world, an investment in lifetime education and skills, an innovative or entrepreneurial culture and a climate that encourages and rewards risk-taking will be the source of Europe's future success.

It is time for Europe to Think Big again, as Robert Schuman did in his time, and to focus on the opportunities for long-term success rather than on the short-term pain of change.

In Schuman's day it started in steel mills and coal mines. This time, the place to start is with productivity and innovation in the knowledge-based society. And that means the focal point today is education and human capital. It must be the top priority. It is the way to a better future.

Thank you.