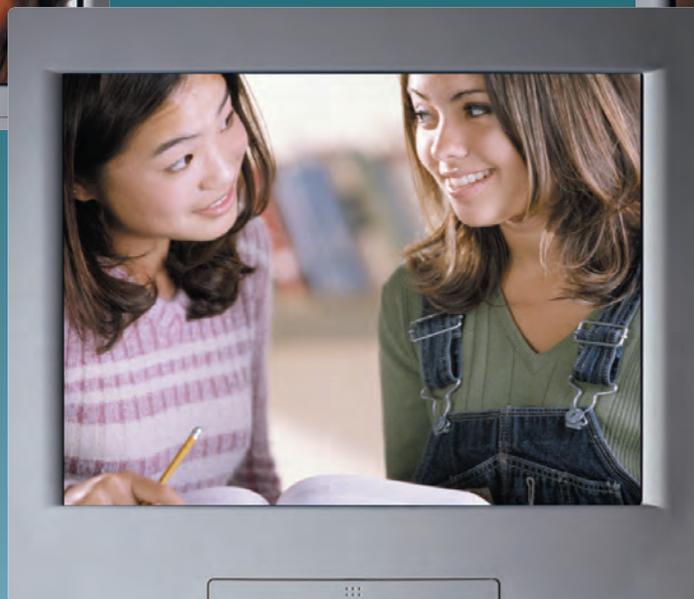


# Education at a Glance 2007

OECD INDICATORS



### Box A1.1. European Human Capital Index

The link between investment in people and economic performance seems intuitive but is difficult to prove empirically and consistently. Measuring human capital comprehensively requires consideration of people's generic and specific skills, formal educational attainment, adult learning and work practices. Quantifiable translations are also difficult: how much learning on the job is needed to substitute for a month of formal adult education? What is more effective in generating human capital: spending to reduce the student-to-teacher ratio for immigrant children or to retrain the unemployed? Measurement is also complicated by the fact that different sorts of human capital investments have various rates of return for stakeholders and widely divergent pay-back periods. If human capital and its impact were more readily quantified, human capital investment might play a larger role in economic decision making. The Lisbon Council, a Brussels-based independent think tank, recently issued a human capital accounting model using time-based measurements to quantify economically relevant human capital. The methodology captures five different types of learning with economic value: learning from parents; compulsory education; tertiary education received; adult informal and non-formal learning; and learning by doing on the job. Further characteristics of the methodology are:

**Consistency across type, time and country:** The investment in each type of learning is expressed in the same unit, inflation-adjusted purchasing power parity US dollars, so that the economic value of all learning is comparable across time and place.

**Allowance for depreciation:** Based on empirical evidence of forgetting rates and knowledge obsolescence rates, the model depreciates different human capital investments over different periods of time and at different rates.

**Accounting for input costs:** The value of the investment in learning is primarily measured by the effective time spent on learning. This investment of time is given a monetary value. For learning from parents, this is the earned income that parents forego when educating their children. For compulsory education, it is the gross cost of teaching. For tertiary education, it is teachers' gross cost plus the earned income that students forego when studying. For adult non- and informal learning it is the learner's opportunity cost of time. The cost of time spent learning by doing is calculated using the gross salary of the employee. This approach draws on the insight that, under certain conditions, the individual's cost of time for human capital creation is equivalent to the individual's income from existing human capital. For example, an adult will only invest time in non-formal education to the extent that this yields a suitable return – a higher salary. If not, the adult would prefer to spend time generating returns from existing human and financial capital.

A first application of the model has resulted in a European Human Capital Index measuring human capital stock, deployment, utilization and evolution in 13 EU countries. However, significant methodological challenges still exist in applying such a model. The OECD is currently initiating discussion with member countries on both methodology and data availability, with a view to possibly replicating such an index across OECD countries.

For more information, see [www.lisboncouncil.net](http://www.lisboncouncil.net).