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People's talent, people's welfare

Sailing lessons from a talent-Odyssey across education,
economic growth, income distribution and their policies

Jo Ritzen

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1. Introduction

1.1 General

The fantastic stories of Odysseus were Homer's way of telling the experiences of the Greeks in turbulent times. They are my inspiration to share with you what I have learned in almost 50 years of sailing through the world of people's talents, in equally turbulent times. I avoid the word "human capital". That term means that talents can be sold away from the person while "people's talents" are obviously not alienable.

My talent Odyssey brought me in many lands always in boats of research, policy advice and policy making. This is a brief summary which necessarily has to be broad-brush.

Some-one called me not too long ago "a man with a mission". Indeed all of my sailing came from the general notion of reaching a better shore, a better land, a better world. It will then not come as a surprise when I summarize 50 years of sailing experience into lessons.

1.2 Contents of my presentation

In this presentation my encounters on the talent-Odyssey are highlighted by some of the Gods and some of the not so godly creatures Odysseus met on his travels. I use Helios, the God of the Sun as the anchor for my discussion on how talent can grow. With Helios I capture what I have learned about what makes good education in a school and in a country.

The second God I want us to encounter is the God of the Wind, Aeolus. He stands in my talent-Odyssey for the driving forces behind economic growth, in particular for the role of people's talents in promoting sustainable economic welfare.

I deem the luring Sirens appropriate for a discussion on income distribution from the perspective of the changes in the demand and supply of talent in societies. The past decades have shown that talent development increased wage inequality and subsequently income inequality, contrary to 1970 expectations.

Maneuvering between the Scylla and the Charybdis is my way of characterizing political decision-making on people's talents and their proceeds. Policy making is always a maneuvering between opposite interests and convictions. Here I show myself as a true believer in the "makeable" society: the society which we ourselves to some extent can mould.

The God of transformation, Circe, is the image for my summary, namely the sailing lessons for change towards education for a vibrant society. The knowledge on talent development and on the contribution of talents to the economy has certainly had its impact on the way education is organized. I suggest for the future research lines on questions in which our knowledge is still limited: the role of education in contributing to "character skills", the impact of these skills on productivity and the role of institutions in promoting talent development and the use of talents in society.

2. How talent can grow

2.1 Funding education

My earliest publication dates back to 1968 [1]. It is a mathematical model of the public sector in the Netherlands used for an economic gaming model, built along the lines of the large multi-sector macro-economic models. It was used for students to play roles of employers, organized employees, of

Government and of citizens and tax payers. The private economy part of the model, the business sectors, was huge, so that there was little space for a model of the public sector. We then decided to model the public sector in such a way that Governments were threatened by calamities, like dike breakthroughs and massive flooding, if they did not spend enough in the public sector.

This may illustrate the belief with which I have grown up namely that societies should invest sufficiently in education to avoid dike breakthroughs or in my Odyssey image: to let the sun shine.

It was not long afterwards that I had the opportunity to work with Donald R. Winkler [2] on a large data- set of Californian youngsters. The students had been followed during their primary and secondary school period. We contributed to the then still young literature on educational production functions with econometric analyses of the impact of schools on learning as measured in changes in IQ.

50 years later I believe that we have firmly established that school inputs indeed are very important for learning. In particular the quality and quantity of the teachers' time matters as was put forward by Hanushek and Rivkin (2006). The corollary is then that teachers should be well paid, such that the best and the brightest see teaching as a potential choice for their future career. I would suggest that our learning of the past half century is that teachers need to be paid on par with workers in the public or private sector, as a necessary condition for the best possible education.

This means de facto that education expenditures per student/pupil should increase with productivity and GDP per capita growth, in line with Baumol's law: education is unlikely to have substantial opportunities for productivity increase. The promises of ICT and the internet for productivity increases of teachers in education have now been around for more than 25 years. They are likely to remain promises while at the same time ICT and the internet will have a tremendous impact on the way pupils and students learn and teachers teach.

Hence my sailing lesson number 1:

- Make sure that per pupil expenditures as a percentage of per capita GDP do not decline in the process of economic growth.

This lesson has not been followed in most OECD countries in the past decades. With increasing numbers of secondary school and university students, with increasing demands on Government expenditures for social security and for health they have very slowly, but also very gradually declined over the past half century. There were ample opportunities for private funding which might not clash with equality of opportunity because incomes of the upper middle class increased substantially. However, very few of those opportunities were taken in OECD countries.

2.2 Organizing education

My first encounter with the organization of education was in 1968 when the then Rector of the Delft University of Technology asked me to make a computer model of that university [3]. It turned out to be a decisive moment in my life. It led me to become involved with the newly emerging field of the economics of education which afterwards became a constant line in my career. Then, in the newly emerging country Bangladesh, I learned in 1971 about planning and organizing technical education in a low income country in a context in which the absorptive capacity for graduates is limited [4].

As a Minister of Education (and Culture and Science) in the Netherlands in the 1990s, I passed 78 laws through Parliament. Out of these I consider the law "on the modernization of university Governance" of 1995 to be a prime example of empowerment. In this law university Governance was framed after

the examples of well-functioning organizations in other sectors of society (including the private sector) including full “autonomy” of the university in the managerial, in the organizational, the financial and the educational policy sense.

Schools are goal oriented organizations, not public forums or representative bodies. In most countries they are primarily financed by Government. Historically Government funding has implied that Governments “run” schools, with little or no empowerment of the teachers. We recognize now increasingly that - despite their financing- schools should be at “arms-length” of Government as perhaps is evidenced in the recent work of the foundation Empower European Universities [5] for universities.

To be excellent, schools need good funding as well as an empowering organization.

Hence my sailing lesson number 2: Organize education such that educators are empowered.

The ratio's of PISA scores to spending on primary and secondary education as a percentage of GDP show remarkable differences between countries which might be explained by differences in the organization of education. This may show that the evidence of this sailing lesson needs to be strengthened through interdisciplinary research of organizational sociology, psychology and educational economics.

In practice, in most countries, politicians feel awkward about empowering schools. They feel compelled to keep a close grip on schools, in order to be accountable to the public in case “things go wrong”. In case of Governance at “arms- length” often the bureaucracy involved in accountability of schools is overwhelming, depressing school outcomes.

2.3 Elusive equality of opportunity

In the late 1970s and early 1980s, under the leadership of former Minister of Education and top sociologist Jos van Kemenade [6], we wrote a comprehensive study on the Dutch Education System. Our debate on the reasons for the substantial public role in higher education ended in the unanimous conclusion that this role is warranted because society wants equality of opportunity. Earlier in the 1970s, with Donald R. Winkler [7], I investigated the distributional preferences of teachers within the school class: do they put the slower learners in front or at the back of the class? We found that at that time teachers in California were generally more eager to promote the best learners rather than to bring the slow learners ahead.

However, that was at a time when social mobility was still quite substantial. Approximately around the generations born in 1980 this changed, as I suggested in a paper for the Salzburg seminar in 2011 [8]. My measure for social mobility was the ratio between the contributions of the school (nurture) versus that of the home background (nature) to learning. I deduced from a great many of these studies on nature versus the school in several European countries and over a long time period that the school continued to become more important than the home background for the generations born in the period 1950-1980, yet that for later generations social mobility –in this measure- halted or declined. Recently the OECD (2014) established the same for intergenerational social mobility, which is the degree to which socio-economic position of children corresponds to that of the parents. Equality of opportunity seems to decrease because the best teachers tend to flock to the schools with the pupils which are the most easy to teach and from the highest socio-economic groups, because neighborhoods and the schools within them have become more segregated and because compensatory programs of Governments have not kept up with demand or decreased in volume.

If indeed the substantial Government funding of education is based on equality of opportunity then sailing lesson number 3 applies:

Revamp education for equality of opportunity

Political debates all around Europe are on private contributions to higher education. These debates may feel –erroneously- to be fueled in the direction of less private contributions. However, paradoxically, more private contributions might be the main inroad for focusing public funding on those who need it most.

3. How talent can propel economic growth

Without good winds you cannot reach your goals. Early economists like Adam Smith thought of economic development only in terms of land and machines. For the economist and preacher Malthus people were almost a threat with populations growing exponentially, while food production was increasing linearly. I entered around 1968 in a world in which mainstream economic growth theory was still unaware of talents as a force of economic growth. This is then also the case in my master thesis which I wrote at the same time as I was initiated through OECD in education economics. Notice that it was not the universities which originally led the thinking on talent in society, but international organizations, like OECD, ILO and UNESCO. In the practice of policy making, however, the importance of people's talents had taken a firm hold. Manpower-planning had become common: tying youngsters to educational careers for which jobs were available. My 1972 book with Judy Balderston [4] was an example of manpower-planning, with little input from educational economics notions.

More in line with educational economics was the cue I took from Bowles (1970) and Tinbergen (1975) to engage in a study on economic development using a production function which distinguished between different types of people's talents categorized by their level of education. This became part of my dissertation on education, economic growth and income distribution in 1977 which was awarded the prestigious Winkler Prince Prize [11]. I learned subsequently about the complexity of the relationship between the level of education and labor productivity, especially when considering the influence of technology and physical capital. In the 1990's I became aware of the interactions between technological progress and people's talents. Technological progress itself does not come from heaven, but is the result of new vintages of human or physical capital with higher productivity levels. The productivity levels of new vintages of physical capital is likely to be the result of the involvement of knowledge workers in the production process, so that the supply of talents creates its own demand. While Tinbergen (1975), many others and I [11] thought that an increase in the supply of graduates would lower their wages and make wage income more equally distributed, the opposite happened: wage inequality increased.

The relationship between education and the labor market is contingent on skills rather than education level per se (see e.g. Humburg, 2014):

- Cognitive achievement and knowledge of the field are important. Yet equally important is the capacity to use that knowledge in “problem solving”. As a metaphor for the importance of problem solving a fragment from the movie “Pulp Fiction” can be used. The ‘problem solver’ The Wolf is introduced as a catch all .
- Most work is done in communication and cooperation with others. How to work in teams, how to communicate is an essential part of the job, for which the graduate needs to be prepared.

- Intercultural understanding is important as many graduates work in an international environment.
- Graduates need to have a good understanding of ICT.

Heckman and Kautz (2013) have added that cognitive achievement tests do not adequately capture what they call “character skills” – personality traits, goals, motivations, and preferences that are valued in the labor market, in school, and in many other domains. Their predictive power rivals that of cognitive skills. Reliable measures of “character” are available. Moreover: schools can also make a difference in character skills.

Hence my sailing lesson number 4:

Sailing with the wind of sustainable economic growth means to focus talent development on life time skills; these include, besides knowledge: problem solving, communication, ict and “character skills”, like self determination, persistence and conflict resolution without violence.

I have added “conflict resolution without violence” to the usual list. I experienced among Ministers of Education in the European Community of the 1990’s that this was high on their agenda. It also became at the World Bank an important topic in particular with the realization that often armed conflicts were preceded by stereotyping of “the enemy” in text books. The present time is one with a world which is many parts in flames. The message for education is clear: to make future generations less conflict prone.

4. Wages are growing more unequal

Talents differ between people, and so do their proceeds. Even for people with similar talents the proceeds may differ, not just over large distances, but also in neighborhoods and regions. Developed societies have always been concerned about these differences. Through taxation and the provision or subsidization of semi-private goods like health and education they have attempted to reduce income inequality. In many European countries the official goals of economic policy are to promote sustainable growth, to maintain price stability and to reduce income inequality. Generally the background for the selection of income inequality as a policy goal is much less clear than that of economic growth and price stability. Vague statements are found on social cohesion as a reason for policies to reduce income inequality.

Sirens lure you from the proper route and let you strand on the rocks. It is my view that income inequality presents a serious danger for a stable social development. Perhaps this is in part normative. In my dissertation [10] in 1977 I simply positioned the reduction of income inequality as a goal of economic policy on par with the promotion of economic growth.

Since then I have witnessed a serious increase in income inequality. I was a member of successive cabinets under which incomes grew to become less equal. OECD (2011) presents the analysis of the driving forces:

Wage inequality is increasing as a result of “labor saving technological progress”. You may also call it robotization, mechanization and the use of ICT, which make routine work more and more obsolete and drive a polarization on the labor market between well-paid jobs engaged in non-routine problem solving activities and low-paid service jobs, also non-routine. Ironically this may have been furthered by Government policies which sped up innovation through better research and better education.

At the same time Government has stepped increasingly back from redistribution through taxation and social security as they were considered to have negative labor supply effects. Governments also noticed that many of the Government expenditures in education, in housing and health were benefitting the rich more than the poor [11].

A future with a substantial further increase in income inequality seems to be inevitable. Perhaps there is room for maneuver to reduce the rent seeking in top-incomes through international cooperation of Governments (e.g. in the EU). The setting has to be international as the 20-30% top talents operate on an international labor market. Redistributive instruments have turned to be blunt: progressive taxation seems always to be accompanied by substantial loopholes for top incomes while social transfers and subsidized goods inherently contribute to a poverty trap.

This begs the question of the threat of income inequality to social cohesion. With Bill Easterly and Michael Woolcock [12] I explored the relation between inequality, governance and economic growth. Our finding is quite robust: income inequality determines institutional quality, which in turn causally determines growth. Alessina et al. (2002) find that less income inequality is associated with more happiness. With Klaus Zimmermann [13] I had expected to find that income inequality would be associated with Euroscepticism across the EU. However, contrary to findings for the 1980' and 1999's income inequality did not turn out to have a significant statistical impact on Euroscepticism.

In other words, there is only limited empirical evidence that an increasing income inequality poses a threat to societal stability. Still –as a no-regret strategy- my sailing lesson number 5 is: avoid the growing apart of societies.

5. Politics and Governance of talent; maneuvering between Scylla and Charybdis.

Our knowledge of the way people's talents develop has certainly increased substantially in the past 50 years. I have had the privilege to be in the position to translate that knowledge into practice, both as a minister and as a university president.

Governments have to take care that they maintain their political support. That support will quickly evaporate when changes are brought about. Change is seldom about better for every-one, but about substantially better for a (large) majority even when it might be negative for a (small) minority. Those who suffer from the change will demonstrate their aversion, while those who will benefit will not let their voice be heard.

Politics then will want to avoid the Scylla of the status quo which no longer reflects the state of the art as we know it, but also the Charybdis of applying the acquired knowledge without restraint. She/he will look for room for maneuver. It is important to notice that knowledge indeed contributes to room for maneuver.

In many countries the room for maneuver in education is limited by the organization of education policy making. Education is the province of Government. Often political parties seek to be attractive to potential voters by promises on education which are less than evidence based and often incident driven.

The most important change would be to increase teacher's salaries in line with salaries of well trained graduates elsewhere in the economy. The costs appear for most Governments to be overwhelming. Personally I experienced in the Cabinets in which I served a decisive loneliness when it came to the

defense of the education budget, in particular when we raised teacher's salaries in 1992. One can explain this as social myopia: the long run is politically not as important as the short-run.

On empowerment other elements play out. Because education is by and large paid by Government, Parliamentarians like Government to keep a close eye on the sector, so that incidents can be avoided and so that the possibility of interference remains.

The color of Government may change with the electoral cycle. Education is harmed if every color change means a see-saw of educational policy. Recently I wrote an article in the German Weekly: die Zeit [14] to comment on a new Higher Education Law in the biggest State of Germany: North Rhineland Westphalia. The new law was from a new Government simply undoing the law of a previous Government (with a different party political composition) of only 6 years before, while that law seemed to have been successful in promoting the quality of Higher Education. This does injustice to the long lead times in implementing change. In my political life I have always tried to seek for large majorities for educational change, de facto depoliticizing education policy.

My sailing lesson number 6 is then: depoliticize education policy.

6. (Circe) Social transformation

50 years ago, when my personal Odyssey started, the charting of people's talent development and the use of talents in society was still in its early stages. Nowadays our knowledge of talent development through schools has vastly improved, putting –oh wonder- the quality of the teacher center stage. Gradually we are also improving our understanding of the contribution of education to talents in the form of character skills. Less well researched is the impact of the organizational form of the delivery of education on learning, although some steps have been made in understanding the importance of empowerment of teachers.

This happened in a period of globalization of international financial markets, of a tremendous increase in world trade, of a marked rise in migration and one in which ICT and the Internet may imply a fourth industrial revolution. In that period the demands for skills have shifted towards non-routine work, while character skills become more important. At the same time the wage distribution has become more unequal and is likely to do so in the near future.

We should not ignore that at present we see flames of war in different parts of the world. This is a challenge for education as well: how to further intercultural understanding, how to avoid stereotyping and how to contribute to the ability to look for compromises without violence.

Odysseus found at his home- coming the house in disarray, full of suitors of his wife Penelope who had taken over the house. That is definitely not my experience of home coming. We have deepened and broadened our knowledge on people's talents and their role in people's welfare. That knowledge slowly permeates the education system: the mammoth tanker which is not turned quickly and whose revamping takes time. Resistance to change inherent in organizations slows down the diffusion. As a result education has been slow to take this external world on board. Education policy has little room for maneuver and is often too partisan, too party-political to provide a stable structure for change.

In terms of funding and equality of opportunity the newly acquired knowledge was insufficiently used. This reveals normative judgments: other sectors or social goals are prioritized in the political process. I explain this as myopia: it is common that in politics the hic and nunc are advanced above the future. Education is an investment which only pays off after a long time. When the social interest rate is high,

then short run benefits in health and social security or in private consumption are advanced above the future benefits from education investments.

So at my home coming most suitors of Penelope are gone. But some are evidently present. My 7th and last sailing lesson is then: we need to advance our knowledge on:

- Institutions and learning (how are schools best empowered).
- Skills and sustainable economic growth.
- Increasing equality of opportunity when the labor market becomes polarized.
- Decreasing income inequality in a polarized labor market.
- Educating for integrity and peace.

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