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Is Pakistan Talent Repellant?

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Pakistanis leaving for foreign destinations is commonplace. Every talented educated person dreams of an overseas assignment. Our officials too are always on the lookout for Pakistanis with overseas experience. This has been the norm since our early days. Although international statistics on immigrants suggests that as a percentage of the population, immigration from Pakistan has declined from a high of almost 6 percent of the total population in the 1960s to around 2 percent by 2015.[1] This decline can be because of greater restrictions on part of the host countries than any lesser desire on part of the people to migrate. For example, research found that almost half of the young people in Pakistan's largest city (Karachi) wanted to leave Pakistan.[2] Despite a paucity of statistics, there should be no surprise if somewhat similar percentages turn up in other cities as well.

But Pakistan faces a more worrying specter: majority of those who leave are young, well-educated and skilled. In other words, it is facing a serious 'brain drain' or "Human Capital Flight".[3] Statistics by Bureau of Immigration and Statistics suggest that an estimated 10 million Pakistanis have left the country during the last decade or so, with a large percentage being skilled, well-educated young lot with qualifications in engineering, medical practice, accountancy, etc.[4]

What makes Pakistan so talent repellant? And why should we care about human capital?

This issue has been taken up before. In 2005, Dr. Nadeem Ul Haque wrote a paper on the issue of human capital flight, its repercussions and suggested policies to ameliorate it.[5] But not much (if anything) has changed since that time in terms of any seriousness shown by policymakers towards this issue. Almost one and a half decade after he wrote his piece, Pakistan Institute of Development Economics (PIDE) recently organised webinars on the same issue, trying to decipher the human capital conundrum faced by the country.

The Evolution of 'Human Capital' Concept

Till the late-1950s, human capital was a relatively unknown term in the economics lexicon. Growth literature revolved around neo-classical models like Harrod-Domar model that put emphasis upon accumulation of physical capital through savings and investment. Robert Solow's 1956 paper on economic growth

[1] *Source:* https://www.macrotrends.net/countries/PAK/pakistan/immigration-statistics. Note that up till 1990 at least, the percentage remained around 6 percent.

[2] 48.7 percent youth in Karachi want to leave the country'.

[3] See Haque (1992) "*Brain Drain or Human Capital Flight*". Islamabad: PIDE.

[4] 'Brain drain: Ten million Pakistani's out for greener pastures', *Express Tribune*, 20th December 2019.

[5] *Brain drain or human capital flight*. (PIDE Lectures in Development Economics, No. 11).

overshadowed all previous efforts and came to dominate the growth debate for long.[6] Part of what are now known as 'exogenous' models, Solow went on to win a Nobel Prize for his contribution. Simply put, it brings together capital accumulation, population and technology to chart out a long term growth trajectory. This model recognises the critical importance of technology as a driver of economic growth, but does not elucidate much upon where it comes from (treating it as a 'residual' or unknown). There is, though, no mention of human capital as a driver of economic growth. For long, Solow's model dominated the growth landscape.

The modern antecedents of human capital as an important factor in economic growth arose with T.W Schultz's claim (1960) of human capital as being more important than physical capital. But it was the late Gary Becker, an economist at Chicago School of Economics, whose work really made people take note of human capital. Becker linked formation of human capital with investment, thereby diverging from the long-held belief of investment only being applicable to physical capital. Later on, his productive work underlined the link between investment in human capital and returns, with health and behaviour being important factors in accumulation of productive human capital. In 1981, Jacob Mincer (another economist of the Chicago school) termed human capital as a factor of production, asserting that its contribution to growth is greater than physical capital.[7]

Arguably the most important contribution, after Becker, came through Paul Romer's research, whose work ushered in what economists call 'endogenous growth' theories. In his classic 1986 paper,[8] Romer made the insightful observation that firms' investment in human capital generates significant positive 'spillovers', in effect generating increasing returns which more than offsets the decreasing returns from physical capital stock (machinery, for example). The main reason that investment in human capital can generate significant positive effects is that unlike physical capital, it is non-rival and non-excludable. These two attributes, incidentally, constitute what we call a 'public good'. Hence Romer's findings strengthened the case of public provision of education, with him noting that public sector investment in R&D can be a significant driver of emergence of new ideas and innovations. Put simply, Romer marked technological and human capital development as an 'endogenous' (determined within the system) rather than exogenous phenomenon.

Endogenous Growth and Human Capital

Paul Romer's 1986 paper was followed by another influential paper in 1990 on the same subject, titled 'Endogenous Technical Change'. By 2015, the paper had garnered over 20,000 citations. In short, the paper hypothesised that the all-important technological change (that leads to growth in productivity) is an endogenous process, implying that it is driven by forces that are concerned with creation of knowledge in a society. Newer knowledge is built upon earlier knowledge, and is a cumulative process rather than individual, which makes knowledge accumulation and creation non-rival. Moreover, he provided a description of incentives involved in creating such knowledge. Romer's 'model', as it is widely known now, is what led to opening of new avenues/insights into long-run economic growth. By now, the critical role of knowledge creation (which leads to new ideas and human capital development) is well established.

Aside from Romer, pioneering work in endogenous growth theories has been carried out by the likes of Robert Lucas and Edward Glaeser. Lucas not only pointed to human capital as a generational spillover, but also divided its effect in to an 'internal' and 'external' effect. In the case of former, individual productivity and income is enhanced as a result of better human capital, while in the latter case, increase in average human

[6] 'A contribution to the theory of economic growth' (1956). *Quarterly Journal of Economics*, *70*(1).

[7] 'Human capital and economic growth' (1981). National Bureau of Economic Research (NBER).

[8] 'Increasing returns and long-run growth' (1986). *Journal of Political Economy*, *94*(5).

capital growth can usher in an increase in productivity of all production factors[9]. Similarly, Edward Glaeser's research establishes a positive link between the growth of human capital and cities becoming the hub of economic growth and productivity. Historically, urbanisation and economic growth have had a very strong link. Glaeser's research suggests that if cities can attract and retain talent, it proves to be one of the best recipes for higher economic growth.[10]

The Evidence and the Spillovers

The claim of human capital as a significant drive of economic growth has stood up well over time. Nowadays, the growth story's premier poster child is China whose own breathtaking ascendancy has been found to contain a substantial dose of improved human capital. John Whalley and Xiliang Zhao, for example, found that 38 percent of China's economic growth between 1978 and 2008 was due to human capital, with the percentage going up considerably higher if the period is shortened from 1999 to 2008.[11] Mohsin Khan found that besides physical capital and institutional quality, better education can have a significant impact upon growth in Pakistan.[12]

Further, human capital development has important spillovers. James Heckman and Bas Jacobs argued that quality human capital leads to lower dependency on welfare handouts[13]. Kevin Murphy and Robert Topel concluded that rising income inequalities are the result of failure of investment into human capital that cannot keep up pace with demand for skills[14]. Issac Ehlrich highlighted the important role of a well-functioning political-economic system in setting up returns to human capital, concluding that the coming together of these two was what helped the US ascend to superpower status.[15]

Where does Immigration Fit In?

Simply put, young, qualified and skilled immigrants create an economic surplus in the immigrating nation, and a deficit in their home country, thus leaving the home country worst off. Ehlrich and Kim took stock of 77 percent global immigrant population and found that the last four decades have seen a gradual rise in the skill composition of immigrants. They found an immigrant 'surplus' that accrues to the receiving nation[16]. It's easy to conclude that the same surplus could have accrued to sender (or home) country if the skilled labour had not migrated. Paul Collier, a leading development economist, opined that poor countries suffer due to migration since bright, young and enterprising individuals tend to be catalysts for economic and political progress. Importantly, he pointed out that the money being sent by immigrants to their home countries (remittances) tend to be 'palliative' rather than 'transformative' in the long run.[17,18]

The Repellants

Edward Glaeser's research into human capital's effect upon economic growth brings to fore the importance of attracting and retaining talent. Pakistan, however, seems to repel talent. As a result of extensive

[9] Robert Lucas (1988). On the mechanics of economic development. *Journal of Monetary Economics*, *22*, 3–42.

[10] For example, see Glaeser and Xiong (2017). Urban productivity in the developing world. NBER.

[11] The contribution of human capital to China's economic growth (2010) NBER.

[12] Human capital and economic growth in Pakistan (2005). *The Pakistan Development Review*, *44*.

[13] Policies to create and destroy human capital in Europe (2009).

[14] Human capital investment, inequality and economic growth (2016).

[15] The mystery of human capital as engine of growth (2007).

[16] Immigration, Human Capital Formation, and Endogenous Economic Growth (2015).

[17] Migration hurts the homeland.

[18] Nadeem U. Haque and Se-Jik Kim. (1995). Human capital flight: Impact of migration on income and growth. *IMF Staff Papers*, *42*(3), 577–607 https://econpapers.repec.org/article/palimfstp/v_3a42_3ay_3a1995_3ai_3a3_3ap_3a577-607.htm

discussions with leading HRM specialists in Pakistan during a series of webinars arranged by PIDE, the following were observed with regards to Pakistan:

(1) Pakistan has traditionally never been a country where there is a demand for enterprising ideas. The emphasis, in every sphere of life, is upon conformity that complements a setup and behaviour based on colonial lines.

(2) We have hierarchical structures at every level. In this kind of an arrangement, enterprising and innovative ideas rarely have a chance to make it to the top. That is how the status quo is maintained.

(3) The concept of 'good job' is a government job (civil service, medical practitioner or armed forces). Regardless of productivity, there is pay at the end of the month, and at the end of the rather unproductive career, one gets to realise subsidised plots and pension. This approach turns even the most talented into cogs ready to be fitted into a colonial-era working machine.

(4) Pakistani cities offer little in terms of parks, playing grounds, libraries and cinemas in living communities that can foster social capital and exchange of ideas that tend to attract talent. Moreover, Pakistan's cities tend to be governed by colonial-era regulations that kill ideas and social capital.

(5) Colleges and universities tend to act as forums for healthy debates and from where new ideas emanate. Pakistan has little or no such culture. There is, for example, no reading culture but an over-zealous social media that thrives on cheap sensationalism and fabricated material to derive ratings. Discussion upon matters of socio-economic importance, like creativity or city zoning laws, is rare or non-existent.

(6) Private sector companies are a negligible part of the global economy. These are basically *seth* style companies with family-concentrated capital with little need for creative, quality human capital, yet always on the lookout for government-led protection.

(7) Multinationals have been an important factor in human capital development. Institutions like Citi Bank once used to have top-training centres like 'Athens Centre', which provided Pakistani banks with exemplary leadership for many years. But with time, as governance standards deteriorated and economy became less competitive, grooming and retaining talent became less of a concern. Authority is now concentrated rather than delegated, and HRM practices are traditional rather than innovative.

(8) Certain policies act as strong repellants to retaining talent. The policy of having uniform wages, prevalent in the public sector, acts as a strong repellant to quality human capital. Higher talent and quality demands higher wage payments, but no such system exists in the public sector. Similarly, except for a few businesses/ institutions, real wages in the private sector remain depressed.

(9) Little or no demand at policy level for local ideas, with Pakistan's policy-makers' reliance on imported ideas being well-known. Nothing new, though, for a state that has been on donor-consultant 'advice' since the days of Doxiades (who designed Islamabad's master plan) and Harvard Advisory Group (HAG) since the 1960s. Unfortunately, such loan-financed foreign ventures have brought anything but reforms or development[19]. On top of it, any human capital improvement program in Pakistan tends to have a heavy donor imprint. Both the KP and Balochistan governments, for example, recently contracted a $236 million loan for human capital improvement in their provinces.[20]

[19] Examples abound. Federal Board of Revenue (FBR) serves as a prime example. An earlier donor financed program called Tax Administration Reforms Proposal (TARP, amounting to $149 million loan) proved to be an utter failure. Undeterred by the futility and failure of such ventures, FBR and GOP have contracted yet another loan worth $518 million for 'reforms'. Since both the FBR and the donor do not face any competition due to lack of market for local ideas, the end result is a continuous cycle of useless exercises which does not bear any productive result for the public sector and the economy.

[20] KP, Balochistan investment projects. *Business Recorder* (BR), 25th June 2020.

Conclusions

There is enough research-backed evidence to suggest that the accumulation of human capital is the most important ingredient in the growth recipe. Unlike physical capital, it is not necessarily replicable as we all differ in our abilities and how we put them to use in a particular environment. Additionally, how human capital is nurtured and utilised could have a telling effect on economic growth. But when quality human capital leaves a country, that country loses more than just a person/s. Pakistan is a perfect case of what happens to a country when it cannot retain or attract quality human capital due to several reasons. It is an overall working environment and economic arrangements are such that there is little demand for ideas and innovative people with newer skills. Rather, the arrangements are more along the colonial lines and hierarchical, implying that there is little demand for quality human capital. In such an environment, not only is it difficult to nurture and produce quality human capital, but it's also difficult to retain it for long. Ultimately, if things don't change, we'll see the quality human capital exodus (brain drain) continues unabated well into the future.

Policy Recommendations

Some major policy initiatives with regards to the development of human capital are as follows:

(1) A transition from quantity to quality needs to be made. There is little good achieved in terms of human capital development by merely concentrating on adding quantity. Having around 200 universities that churn out thousands of graduates every year, majority of whom can neither fulfil skills demanded in the market (skill mismatch) nor add to the development of human capital is of little use.

(2) Concentrate on early cognitive interventions that are critical to human capital development. Economist James Heckman, a pioneer in early cognitive interventions and its effects, concluded that it is the early interventions that are most critical for the development of quality human capital. Later interventions, from point of view of cost-benefit analysis, will not result in the same gains.[21] Thus, we need to focus on getting our early childhood education right.

(3) Limit public footprint, especially in economic activities. Government's role should be limited to that of a facilitator for economic growth spearheaded by the private sector. It should concentrate on developing such institutions that foster innovation and ideas. Similarly, it should incentivise and support R&D by supporting initiatives like National Incubation Center (NIC). Successful human capital policies, in turn, do not work in a vacuum, but have to be ably complemented by overall improvements in governance in a manner that it instils hope in the citizenry. Such steps will induce competition for talent, newer ideas and the demand for ideas and innovation will witness a rise.

> Nobel Prize winner in Economics, Professor James Heckman, has done groundbreaking work in human capital development, especially during early childhood phase. One of his most important finds was that policies that lead to quality human capital development lead to lower budgetary deficits, increase revenue and would reduce the need for costly social spending in the future. Overall, good policies would lead to strengthening of economic fundamentals.
> *Source:* Invest in early childhood development: Reduce deficits, strengthen the economy.

[21] 'Policies to create and destroy human capital in Europe'(2009).

(4) To develop and expand the market for ideas, Pakistan's institutions (especially universities) should synergise their efforts. Bringing together such institutions on one platform would help in further unveiling new avenues of research and innovative ideas. Moreover, Pakistan needs to do away with hierarchical structures prevalent at government and private levels, whether its universities or offices. Such colonial edifices are a hindrance in the way of innovation and ideas, and a repellent for talent.

(5) There should be support for home-grown ideas and research complemented by a proper human capital management strategy. Wherever it is required, for example, a global talent pool should be tapped to fill the skill deficiency. In this regard, it is essential to point out the precedent against the workings of dual nationality holders. If Pakistan wants to attract talent from around the globe, such legislative measures will have to be revisited since no talented dual nationality holder would want to come here and stay for long in such circumstances.

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