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A stock-taking report on measuring human capital

Draft Terms of Reference for the Task Force on measuring human capital

Note by Statistics New Zealand

Summary

This note provides the draft Terms of Reference for the Task Force on measuring human capital. The document was drafted at the request of the Bureau of the Conference of European Statisticians following up from the proposal for future work in the stock-taking report on human capital measurement (ECE/CES/2013/5).

During the electronic consultations on the stock-taking report in March-April 2013 countries expressed support for the proposal for future work and considered work on experimental satellite accounts for human capital and education as a priority (ECE/CES/2013/5/Add.1).

I. Background

1. Following discussions at its June 2011 seminar on measuring human capital, the UNECE Conference of European Statisticians (CES) decided to prepare a stock-taking report aimed at providing an overview of what has been done in the field of human capital measurement. A small expert group was established to facilitate the preparation of the stock-taking report. This group was chaired by Geoff Bascand (Government Statistician of New Zealand) and included representatives from Canada, Norway and the United States. The OECD provided technical leadership in the drafting of the report in consultation with other members of the expert group (ECE/CES/BUR/2011/NOV/16). UNECE provided a link to the non-OECD countries and helped in collecting information from these countries. The CES Bureau approved the proposal to launch the stock-taking exercise at its meeting in November 2011 (ECE/CES/BUR/2011/NOV/24).

2. To support this review, the OECD Secretariat designed a questionnaire in February 2012 with the purpose of collecting information on what CES countries have done, are doing, and are planning to do in terms of measuring human capital. The questionnaire was sent by the OECD Secretariat to members and regular observers of the OECD Committee on Statistics (CSTAT), and by the UNECE Secretariat to non-OECD CES members. Information from the questionnaire identified best practices across countries, as well as conceptual, methodological and data-related issues associated with human capital measurement.

3. The results were summarised in the stock-taking report and discussed by the CES Bureau at its meeting in November 2012 (ECE/CES/BUR/2012/NOV/11). The report outlined the current status in measuring human capital and highlighted that, over recent years, a number of researchers and statistical organisations have developed experimental monetary measures of the stock of human capital using both the cost-based and income-based approach. It was suggested that producing these types of measures is feasible for many CES countries based on the information that is already available within their statistical systems. However, there remains significant scope for improvements in terms of consistency and comparability between countries.

4. The stock-taking report recommended that further work should be carried out in four areas: investigating the discrepancies between the cost-based and income-based approach; improving the quality of data collected internationally; establishing a group to construct experimental human capital satellite accounts based on common methodologies; and pursuing work to estimate the non-economic returns to human capital.

5. The CES Bureau supported the recommendations for further work proposed by the report, with work on experimental satellite accounts considered a priority (ECE/CES/BUR/2012/NOV/22). The CES Bureau requested Statistics New Zealand to co-ordinate the drafting of terms of reference for a Task Force on measuring human capital and to submit it to the Bureau meeting in June 2013.

6. The stock-taking report outlined that the construction of experimental satellite accounts would require making decisions on a number of methodological and data issues. These include defining the boundaries of the educational sector (e.g. formal education, in-work training), identifying categories of beneficiaries of human capital investment (i.e. resident, non-resident households), and identifying the units financing investment in human capital (i.e. government, businesses, households). Work may also need to be carried out on improving the quality of earnings, education and mortality data and decisions be made on how the data would be integrated and harmonised to meet the requirements of human capital accounting.

7. Understanding human capital is of significant interest to policy makers. Statistics on the stock of human capital can be used to better understand what drives economic growth, how well the labour market is functioning and assessing the long-term sustainability of a country's development path. Information on the human capital distribution among population sub-groups can be used to investigate broader issues such as inequality, social inclusion and quality of life.

II. Mandate

8. The work of the Task Force is conducted within the framework of the activities of the CES and its Bureau. The Task Force will be created for a period of three years, at the end of which a final report will be submitted to the Bureau and the CES.

III. Objective

9. The objective of the Task Force is to further pursue the conceptual development of human capital measurement, with priority to be given on developing experimental human capital satellite accounts. The focus of the group should be to develop guidelines and compile best practices to help countries construct experimental satellite accounts for human capital, based on common methodologies and on agreement on the outcome of such accounts. The work should be as consistent as possible with other international statistical standards and systems.

10. The longer term goal should be to identify areas where further work can be conducted to develop indicators that could more coherently measure the different dimensions of human capital and all of its benefits (economic and non-economic, private and collective).

IV. Planned activities and outputs

11. Building on the work accomplished to date, the Task Force will undertake the following suggested activities:

(a) Discuss conceptual issues relating to how human capital is defined and the purposes of human capital measurement, making use of the stock-taking report. Further explore what policy and research questions human capital data can be used to answer, in particular, the use of experimental human capital satellite accounts;

(b) Consider how the experimental satellite accounts could link with summary indicators which provide proxy indicators of human capital (e.g. average years of schooling, educational attainment);

(c) Develop a broad conceptual framework for constructing experimental human capital satellite accounts taking into account the range of intended uses. The framework should be developed with the intention of producing more comprehensive measures of human capital in the future. Decisions on definitional issues should be made (i.e. defining the educational sector, identifying categories of beneficiaries of human capital investment);

(d) Compile best practice guidelines for obtaining the requisite data and constructing the relevant measures. Guidelines should also be produced on how data from a range of sources can be integrated and harmonised to meet the requirements of human capital accounting. The Task Force should consider how human capital accounting will be integrated into the System of National Accounts;

- (e) Develop a set of draft accounts/tables using the framework described above;
- (f) Examine in more detail the discrepancies between the estimates of the stock of human capital based on the cost-based and income-based approach and how they can be reconciled. Explore the limitations and benefits of these methodologies;
- (g) Identify areas where improved data is required and investigate what recommendations could be made to influence the type of data that is collected internationally, so as to improve the accuracy and comparability of the estimates of the stock of human capital. Key focus areas should include improving earnings information, harmonising education data and sourcing mortality rates by education;
- (h) Identify key areas for future work with a focus on developing indicators that could better measure the different dimensions of human capital and its wider benefits.
12. The main output of the work of the Task Force will be a report containing the conceptual framework and best practice guidelines, including draft tables, for the production of experimental human capital satellite accounts, suitable for use by national statistical offices or other agencies charged with this purpose.
13. The Task Force will report on its progress to the CES Bureau on a regular basis.

V. Timetable

14. The work of the Task Force should be conducted during the period from June 2013 to June 2016, according to the tentative timetable below. As discussed at the CES November 2012 meeting, the work should have a longer term goal with concrete deliverables in the short term to enable step by step progress in this complex area.

Jun 2013:	The CES Bureau reviews the draft Terms of Reference and provides more detailed guidance on the work of a future Task Force.
Jul – Aug 2013:	Launch the Task Force, confirming the countries and organisations interested in participating in this work.
Sep – Dec 2013:	Develop a more detailed work plan, including the concrete activities and outputs of the Task Force, and deciding what is feasible within the time frame.
Jan – Dec 2014:	<ul style="list-style-type: none"> • Discuss the objectives of human capital measurement and its uses for policy analysis with a focus on experimental human capital satellite accounts. • Compare the different approaches used to estimate the stock of human capital and identify their limitations and benefits. • Release various issue papers that address key issues related to the construction of human capital satellite accounts.
Jan – Dec 2015:	<ul style="list-style-type: none"> • Develop conceptual framework and compile best practice guidelines in establishing experimental human capital satellite accounts. • Discuss dissemination of the human capital accounts. • Establish key areas of future work, such as estimating non-economic returns to human capital.

Jan – Mar 2016:	Draft report submitted to the CES Bureau and considered at the February 2016 meeting. If the CES Bureau agrees, the report will be sent to all CES members for electronic consultation.
Apr – May 2016:	Revise draft report based on feedback received.
Jun 2016:	Present the final report to the CES 2016 plenary session for endorsement.

VI. Methods of work

15. The Task Force is expected to work mainly via email and telephone conferences. However, an initial face-to-face meeting should be scheduled to formulate a more detailed work plan and discuss the feasibility of what outputs can be produced. Annual face-to-face meetings may also be required.

VII. Membership

16. The following countries and organisations expressed interest in participating in the work of the Task Force: Canada, New Zealand, Norway, United States, OECD and UNECE. Membership is open to additional countries or organisations that may desire joining the Task Force.

17. The Task Force should include experts on satellite accounts and the System of National Accounts as well as subject matter experts, labour statisticians and academics. Experts who are familiar with both the cost-based and income-based approach to measuring the stock of human capital should also be included.

18. The Secretariat support will be provided by the UNECE.
