Integrated Approaches to Human Resource Development

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by
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Abstract

Development priorities among human resource programs should be determined primarily on the basis of expected productive returns on these investment activities, arrived at in much the same manner as among nonhuman resource development programs. What distinguishes human resource development programs are the special problems of calculating the value added by the programs over the life of an individual and assessing the opportunity and direct costs of the private and public resources allocated to produce these enduring stocks of human capital.

This paper seeks to integrate conceptually knowledge of the economic contribution of human resource investment programs. First it is argued that human resource programs will contribute more to development if they are allocated to those activities that have the highest internal rates of return. Although high private rates of return may be necessary to attract the investment of private resources of participating individuals and families, public subsidies to human resource programs should also be based on a clear superiority of social returns over private returns or a palpable market failure that prevents private individuals and families from investing the socially optimal amounts in particular activities. The paper outlines how the private and social returns are calculated, and how the personal distribution of benefits from programs may be quantified to inform decision makers.
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I. Introduction

Development priorities among human resource programs should be determined primarily on the basis of expected productive returns on these investment activities, arrived at in much the same manner as among nonhuman resource development programs. What distinguishes human resource development programs are the special problems of calculating the value added by the programs over the life of an individual and assessing the opportunity and direct costs of the private and public resources allocated to produce these enduring stocks of human capital. Poverty alleviation is also a salient feature of many basic human resource programs that advantageously combine efficient high returns and an equitable distribution of those returns to deserving poor persons, i.e., those who have providently saved and invested in their future but have had bad luck or entered life with unusually poor endowments and with little collateral to borrow against.

A program's capacity to increase the productivity of an individual may not be fully apparent for decades. Human capital cannot be bought and sold, and, therefore, there are no markets from which to infer in the short run how much the value of human assets is increased by a program. Because of this limitation, many conceptual and statistical simplifications are needed to approximate from a cross-sectional survey the lifetime productive returns that can be expected from a human resource program. However, these limitations of human resource analyses are not fundamentally different from those faced when evaluating long-run infrastructural investment programs in which privatization is not a practical means to price the output of the program.

The market and nonmarket productive returns to human resource investments — whether they are in sectors dealing with child nutrition and survival, adult health, schooling, labor mobility, or family planning — are likely to be interdependent and vary according to the local scale of each program. Thus, the return on any one level of investment activity depends on how it is combined with earlier and later human resource investments in this and other human resource programs. Consequently, human resource programs should be evaluated together, conceptually and empirically, if private and public resources are to be allocated efficiently among these programs and between this sector and others.

Social objectives other than efficiency should also be considered in such an integrated human resource framework in order to assess properly who benefits from programs and why. Social externalities of human resource programs may justify public subsidies, but only selectively? Credit markets are widely assumed to be an important constraint on the capacity of the poor and disadvantaged to realize relatively high private market returns through investment in their children's human resources and their own. In these cases, care must be exercised to target public subsidies or credit provisions to those persons and activities where such failures of the credit market are a serious impediment to achieving an efficient level and composition of investment.

II. Rate of Return

The discount rate that equalizes the discounted costs and discounted benefits of a project is its internal rate of return. It is a standard means of ranking the profitability of investment projects in a well-functioning capital market and yields a unique ordering of projects if large costs are not incurred at the end of an asset's life, as when disposal costs are substantial. This does not seem to be a limitation of the rate of return concept when used to evaluate human resource investments.