Eye on Washington by Nicholas F. Benton

The need to invest in 'human capital'

Economists are seeking ways to remedy underlying fallacies leading to the coming economic crash.

'Investment in Education and U.S. Economic Growth" was the title of a paper delivered by Harvard economist Dale W. Jorgenson at a conference of the American Council for Capital Formation here in October. Dr. Jorgenson asserted that investment in one year of education—even the below-par standard of education currently available in U.S. schools—contributes more to the growth of the U.S. economy, per capita, than any other form of investment. He cited a trend among scholars to "characterize the benefits of education by means of the notion of investment in human capital," noting that "this idea captures the fact that investment in human beings, like investment in tangible forms of capital such as buildings and industrial equipment, generates a stream of future benefits."

These benefits, he pointed out, are mainly in the form of increased productivity for the economy as a whole. However, he said, national income accounting—the process that generates the so-called Gross National Product (GNP)—does not take this obvious relationship into account.

As a result, he said, priorities get skewed. Instead of measuring "the contribution of changes in the educational composition of the labor force to increased output," this factor "is confounded with a host of other omitted factors that affect productivity," he said. "The most common approach to compiling data on educational investment is to measure the inputs, rather than the output, of the educational system," he added. "Data on the expenditures of educational institutions for teachers and other personnel, buildings and equipment, and materials can be compiled from accounting records. This information can be supplemented by estimates of the value of time spent by students and their parents as part of the educational process. Costs of schooling and the value of the time spent by students can be used to measure the flow of resources into schools and universities."

He continued, "While costs of education are highly significant in economic terms, the cost-based approach to measurement of educational investment ignores a fundamental feature of the process of education. This is the lengthy gestation period between the application of educational inputs—mainly the services of teachers and the time of their students—and the emergence of human capital embodied in the graduates of educational institutions."

Jorgenson attempted to "present new data on investment in education that will make it possible to analyze the impact of educational investment on U.S. economic growth." Putting together a lot of detailed data and estimates, including "an estimate of the impact of increases in educational attainment on the lifetime incomes of all individuals enrolled in school," Jorgenson concluded, "Our most important finding is that investment in human and nonhuman capital accounts for the largest part of U.S. economic growth during the postwar period."

Jorgenson's paper, presented before a small group mostly of fellow economists, reflects a growing movement in Washington driven by the reality of impending U.S. economic collapse. Some have developed concepts such as "human capital," and are calling for adjustments in national income accounting methods as a way of getting a better handle on what it takes to achieve real, as opposed to fictitious, economic growth.

Those among this current believe that three categories should be shifted, as Jorgenson's paper suggested, from the "cost" to the "investment" categories in the national income accounting ledger. The three categories are: 1) research and development, 2) education, and 3) national infrastructure. They argue that instead of being viewed as net expenses, and therefore retarding influences on the growth of capital in the economy, these three categories should be seen as inputs that will stimulate growth.

Failure to view them in this way has contributed to a skewed thinking in Washington, resulting in self-defeating decisions to cut funding in these categories, ostensibly in the name of economic prudence. Fully a third of the nation's roads need repair. Chiseling on investment in such infrastructure will cost the nation countless billions in economic output in coming years. Failure to build the visionary "North American Water and Power Alliance" water, hydroelectric, and transportation grid in the western U.S., Canada, and Mexico in the 1960s, when its plans were first explored by Congress, has already cost the U.S. economy enormously.

The basic idea is that it is not nearly as costly to build, as it will be not to. The same goes for development of "human capital" as Dr. Jorgenson said in his paper. But such insights come as far too little, too late unless a crash program for their realization occurs.

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