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Human Resources Development : A Paradigm Shift ?

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A paradigm shift is taking place in contemporary understanding of the role of human resources in development. Support for the supply-sided human capital model rests on the proposition, not yet established empirically, that it leads to more rapid rates of development than alternative approaches. The human resources development strategy stresses that human resources are both producers and the intended beneficiaries of development. It thus focuses on the achievement of human development directly, as well as indirectly through investment in human capital, and emphasises the role of rewarded economic activity and demand in successful implementation of human resources development. Important policy implications of the new HRD-based paradigm are discussed.

1. Introduction

Human resources development has recently become a fashionable term in the development literature and among development planners and policy-makers. However, there is some confusion as to the nature of 'human resources development'¹, and the role of human resources in national development strategies. The confusion arises partly because the term 'human resources development'² conveys a variety of meanings, depending on the context within which it is used. Another source of confusion is the existence of two different and to some extent contradictory paradigms of human resources development.

Post-war development policy has oscillated uneasily between different views of the role of human resources. During the 1950s and 1960s, growth-oriented strategies focused on capital and economic growth, viewing human resources as human capital inputs into the growth process, and assuming that social development would 'trickle down' automatically from economic growth. By the 1970s, such production-focused strategies were widely regarded as having failed to produce satisfactory consumption benefits in the form of an improved quality of life for the majority of the population. They were gradually supplanted by

strategies such as the 'basic needs' approach that emphasised distribution. However, this more consumption-oriented perspective was rapidly curtailed in the early 1980s when government budgets came under pressure from the oil shocks and increasing international debt burdens. Instead, economic rationalism emphasised structural adjustment and stabilisation policies in developing economies, directing attention back to a productive view of human resources. By the end of the decade, dissatisfaction with the outcomes of both the production- and consumption-oriented approaches led to the emergence of a new synthesis that sought to link the human capital and quality of life aspects of human resources in a more balanced development strategy. A broader, more integrated concept of human resources development (the abbreviation HRD is used throughout this paper to refer exclusively to this broader concept) provided the basis for a 'HRD-oriented' development strategy that tries to balance the production and consumption aspects of human resources, and seeks complementarity between economic and social development.

The production- and consumption-oriented perspectives are each associated with rather different

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¹ An additional source of confusion for the general public is the use of the term 'human resources development' in the private sector to describe enterprise-level manpower training and development activities previously referred to as 'personnel management' or 'personnel development'.

² Within the Asian and Pacific region, the plural form 'human resources development' is more widely used than the singular form adopted by the Commonwealth Secretariat. The plural form has become generally accepted due to its use by the United Nations Economic and Social Commission for Asia and the Pacific in its major UNDP-funded Human Resources Development Program, in all associated documents, and in the Jakarta Plan of Action for Human Resources Development that was adopted by the forty-eight countries of the region in 1988. Since the singular form is widely used in the narrow manpower development context, and as this paper deals only with the Asia-Pacific region, it will also adopt the plural form.

understandings of the term 'human resources development'. Technically, the term 'resources' is appropriate only for the first and earliest human resources development paradigm, the human capital model of economic theory, which focuses on the role of people as resource inputs into the process of economic development. This supply-side perspective views human resources development largely as education and training, emphasising the importance of manpower planning and manpower development policy in developing economies.

The second perspective, arising from the literatures on basic needs, employment-creation and women-in-development, emphasises human resources development as social development and the role of people as the ultimate beneficiaries of the development process. Questioning the validity of the implicit assumption of the first perspective that economic development automatically produces social development, this view focuses especially on human resources development at the individual and household levels.

The third perspective represents a synthesis of the first two. While recognising the validity of the social development critique of the narrowly economic paradigm, it also acknowledges that sustainable social development requires but does not automatically produce or support economic development. Consequently, it advocates a balance and complementarity between social and economic development and seeks to integrate the human capital and quality of life dimensions of human resources.

On the basis of these different views of the roles of human 'resources' in development, two related but rather different paradigms of human resources development are being recommended to Third World policy-makers and planners by development experts and international agencies³. The first is the conventional human capital model, which can be justified only on the proposition that a human-capital led development strategy will lead to more rapid economic development than alternative strategies. The second is the ESCAP (United Nations Economic and Social Commission for Asia and the Pacific) type of HRD strategy for development, which promotes human resources development as

both a means to economic development and, in the form of social development, as an end in itself. A HRD development strategy emphasises the need for a balance between the economic and social aspects of human resources development, which must be mutually compatible and mutually reinforcing. The human capital paradigm emphasises the supply-side role of human resources as inputs into development. In policy applications, it has been used largely at the aggregate level to analyse national manpower planning and development strategies and to compare the relative merits of public investments in the primary, secondary and tertiary levels of education. By contrast, the second paradigm seeks a more balanced and dynamic view of the role of human resources development as both an input into, and one of the principal outputs from the development process, highlighting an important synergy that needs to be taken into account in the development of policy. The broader paradigm draws attention back to the importance of individual decision making in human resources development. Adopting a rather institutionalist perspective, it underlines the need for governments to design programs that explicitly consider the impact of the institutional context on individual decisions, and the interaction between the human capital and consumption dimensions of human resources development.

In contrast to the human capital model, the theoretical basis for this broader, integrated HRD development paradigm has been only weakly elaborated. However, the new approach shares many of the concerns of the human capital paradigm, which it encompasses and extends. It can therefore draw on the same body of neoclassical economic theory to provide its theoretical foundations and a useful set of analytical tools to assist planners and policy-makers to devise and implement HRD-focused strategies for development. This paper therefore begins by examining the theoretical justification for the conventional view of investment in human capital and its empirical application to develop-

³ In addition to the ESCAP initiatives mentioned throughout this paper, and the UNDP focus on Human Development, the Commonwealth Secretariat has also initiated a two-year Human Resource Development Program, and the ILO and World Employment Programme highlighted a human resources development strategy in its *African Employment Report, 1990*.

ment policy formulation. It then explains the rationale for the broader, integrated concept of HRD and presents a theoretical basis for an HRD strategy for development. Finally, it briefly explores some of the implications of the latter concept for planning and policy-making in developing countries.

2. Human Resource (Human Capital) Development⁴

Since its emergence in the 1950s, the concept of human capital has experienced a series of methodological shifts between the macro (aggregate) and micro (individual) levels of analysis. The empirical origins of the conventional economic view of human resource development as investment in human capital are to be found at the macro level in the growth accounting literature (Denison 1962, Solow 1962), where a substantial component of the historical growth of the developed economies was attributed to changes in the quality of human capital, identified as knowledge and technology. Thus the concept of human capital originated in studies of aggregate economic data. The major practical applications of human capital theory in the development literature have also been at the macroeconomic level, principally in relation to the allocation of public resources among competing investments in human resource development, specifically public investment in education. Despite its macro origins and macro applications, the basic theoretical foundations of the human capital paradigm lie in the neoclassical microeconomic theory of individual behaviour.

2.1 The Microeconomic Theory of Investment in Human Capital

In the conventional neoclassical economic paradigm, human resources are regarded as an important input into the development process in the form of human capital. This view of the role of human resources is the product of a philosophy that seeks the foundations of all social phenomena in individual behaviour. Consequently, investments in human resources are assumed to be undertaken by individuals acting in their own interests, and the formal theory of human capital focuses on behaviour at the individual level. The motivation for

human capital formation is the expectation of future returns: individuals compare the costs and benefits of alternatives and undertake those investments in their own human capital that will maximise (the discounted value of) future income. Human resource development is equated with human capital formation, principally through individual investments in formal education and on-the-job training which increases the productive power of human labour. Expenditure on health or migration is also considered as human capital investment where it affects education⁵ or employment. The theory of human capital utilises the static, partial equilibrium analysis of conventional neoclassical microeconomic theory to focus on the supply side at the macro level, emphasising the importance of a supply of skilled and trained manpower to the modern sector of a developing economy.

Although a powerful analytical tool at the micro level, human capital theory suffers from a number of serious limitations in modelling individual human resource decision-making. The most critical human capital investments are the expenditures on health, nutrition and basic education that are made, not by individuals acting in their own interests, but by parents acting for their children. However, although the New Household Economics (NHE) (Becker 1965, 1976) is able to incorporate such decisions within a household model of consumer decision-making, the key role of parents and the NHE approach have not been assimilated into human capital theory. The human capital model implicitly assumes that an altruistic parent or household head maximises a joint utility function so that household investment decisions can be treated as individual decisions. The model ignores the empirical fact that changes in exogenous prices or resource endowments affect different household members in different ways, and is unable to satisfactorily account for the different human capital experience of family members, especially the differences between men and women, and boys and

⁴ In this section, the singular expression 'human resource development' will be used as it is widely associated with the conventional human capital view of human resources, where it refers primarily to education and training, and manpower planning and development activities.

⁵ Strictly speaking, human capital investments at the individual level should enhance income-earning capacity. Thus, the effect on education is actually a proxy for an effect on income.

girls (Evans 1989). Other limitations of human capital theory include the fusing of a sequence of human capital investment decisions, many of which are clearly linked to the life cycle, into a single unit of time, and the inability to deal adequately with divergences between the private and social costs and benefits of human capital investments. The latter is a more serious limitation in empirical applications at the macro level.

The NHE offers a potentially more satisfactory approach to household human capital investment decisions at the micro level, as well as a theory of consumer choice that is sufficiently general to allow economic analysis of a wide range of human behaviours. The introduction of the value of time as a device for measuring relative values allows alternatives outside the market sector to be compared, while the adoption of the household as the basic unit of decision-making injects an element of social structure into the economic analysis of choice. The inclusion of the value of time in all economic decisions is particularly important because changes in the value of time are associated with many aspects of human resource development (Corner 1986, p.9). It also permits a much wider interpretation of the concept of human resources development, and enables the non-monetary costs and benefits often overlooked by conventional analysis to be incorporated in studies of human resource decision-making.

However, much of the potential of NHE to extend the analysis of human resource decisions has not been realised. The first obstacle is the continuing assumption that household decisions are made by an altruistic household head (Becker substitutes a 'benevolent dictator') maximising a joint utility function. This is internally inconsistent because it assumes that the same individuals who are supposedly motivated by pure self interest in the market, suddenly become selfless and altruistic within the household (Folbre 1986, p.247). It is also incompatible with everyday experience and the findings of numerous empirical studies, particularly those focusing on women's roles, unequal exchange and exploitation within households (for example, Chen, Huq and D'Souza 1981, Whitehead 1984). Like earlier neoclassical theory, the NHE excludes most issues relating to intra-household or family behav-

our and decisions.

Although the NHE is theoretically concerned with both production and consumption decisions in the household, the fact that it is fundamentally a theory of consumer choice has also restricted its impact on human capital analysis. The concept of the 'Z-good' embodying household and market inputs to produce consumer satisfaction within the household unit has tended to focus attention more on consumption than investment. Education, for example, is treated not as a human capital investment but as an element of the consumption good 'child quality' that is jointly determined with the number of children in fertility decision-making.

The potential of the NHE to analyse human capital investment decisions has not been realised, perhaps as a consequence of the strong micro orientation of the NHE. Conversely, the macro orientation of human capital theory may explain why transaction analysis, which offers a potentially more satisfactory approach to the intra-household determination of human capital investment decisions, appears to have made little contribution to human capital theory.

2.2 The Macroeconomics of Human Capital

Despite its microeconomic foundations, the greatest impact of human capital theory in the development literature has been in the macro arena. The transfer of human capital theory from the microeconomics of individual behaviour to the macroeconomics of public policy-making was inevitable. The way in which human capital had originally been identified in the macro growth accounting literature implied that investment in human capital would result in increased productivity and more rapid economic growth. Policy-makers and advisers were therefore particularly attracted to the notion of investment in human capital, and required a theoretical framework in which to consider this. Furthermore, in most developing countries the major human resource allocation decisions in health, education and manpower training were made by government. It is governments rather than individuals or households who play the dominant role in determining the aggregate volume of investment in health, education and

training in the Third World⁶.

The macro analysis of such public sector human capital investments has been heavily influenced by the understanding of key development issues that prevailed during the 1960s, when the human capital model was first introduced. At that time, shortage of financial capital was regarded as the major problem confronting the developing countries, while human resource development was not widely perceived as a major development constraint. Development policy therefore focused on ensuring the most efficient allocation of the scarce resource, which was capital. The direct application of the microeconomic theory of human capital investments to the macro level resulted in a voluminous literature on rates of return to human capital investments that focused not on the role of human capital as such, but on the rates of returns to the financial capital tied up in such investments. This literature was concerned with ensuring that investments were made to the point where the marginal 'social' rate of return among different human capital investments was equalised and not less than the yield on alternative investments.

Investment in education, particularly the efficient allocation of resources between primary, secondary and tertiary education, was the major focus of these human capital studies. A recent review by Behrman (1990b, pp.46-54) of the extensive literature estimating private and social rates of return to schooling observed that most studies have found such returns to be fairly high, particularly for primary schooling, suggesting that expansion of such schooling should have high priority in developing countries. Citing a 1980 World Bank study, he notes that the average estimated social rates of return were 24 per cent for primary schooling, 15 per cent for secondary and 12 per cent for post-secondary schooling (Behrman 1990b, p.33). The standard procedure for estimating the economic rate of return to schooling has been:

“to start with the correlation between earnings and years of schooling (usually controlling for work experience) from cross-sectional data, which gives an estimate of the *private* rate of return to the time spent in school. Then adjustments are made for other costs such as the time of teachers and the costs of school books and buildings, in order to obtain an

estimate of the social rate of return to investments in schooling. “(Behrman 1990b, p.32, emphasis in the original).

However, such studies suffer from a number of technical limitations that seriously prejudice their value as a guide to policy-makers and planners. Behrman (1990b, p.40) noted a general failure to control for quality of schooling, family connections, ability and motivation, geographic aggregation biases⁷, and unobserved household and community variables that may affect schooling and earnings. He suggested that this has resulted in standard estimates that substantially overstate the returns to schooling in developing countries, particularly the returns to primary schooling. Behrman (1990b, p.46) estimates that such technical problems may have resulted in overestimates by as much as 50 to 100 per cent of the underlying rates of return.

More serious than the technical shortcomings are the methodological difficulties involved in extending the microeconomic theory of individual human capital investment behaviour to the macro level. Behrman (1990b) makes only passing reference to the difficulties posed at the macro level by the assumption that the income gains of human capital investments to individuals are equivalent to the productivity gains to the economy. He notes the probable existence of scarcity rents to high levels of schooling during the early stages of development (Behrman 1990a, p.48) as a potential source of overestimation of returns when cross-sectional data are used. (The scarcity rent components of earnings represent a transfer payment rather than a contribution to national output.) Reviewing a Peruvian study, he also reports the apparent impact of credentialism which would similarly suggest that increased individual earnings by educational category cannot be interpreted as an increase in output brought about by education (Behrman 1990b, p.39).

⁶ Note that this overlooks the important role of individuals in determining how effectively public expenditures on the *provision* of education and health will be converted into individual human resource development.

⁷ Geographic aggregation biases arise from the grouping together in a single sample of poor areas with limited physical capital and low levels of poor quality schooling, and more affluent areas with extensive physical capital that is complementary to schooling and high levels of better quality schooling.

Increases in income that accrue to individuals as a result of education, but which are not related to their increased productivity, lead to exaggerated estimates of the social return to investments in schooling.

However, the most fundamental obstacles, barely mentioned by Behrman, relate to the potential divergence between private and social costs and benefits, and the question of the political economy of human resource development. Perhaps the most critical limitation of conventional human capital analysis is its inability to deal adequately with divergences between the private and social costs and benefits of human capital investments, particularly in empirical applications. Most economists have been satisfied to acknowledge this problem and then to carry out their analysis as if the divergences were either negligible or unimportant. Behrman, for example, notes (in a footnote) that the social rate of return calculated in the standard estimates is not a true social rate because it does not include externalities, which are usually assumed to be positive for schooling. However, having noted that if they are positive, the standard social rates of return are underestimates of the true social rates, he then proceeds to argue that, for the technical reasons noted, the standard rates of return seriously overestimate the true social rates, thereby implying that externalities are not important.

This devaluation of the role of externalities is partly due to inherent limitations in both the data and the quantitative techniques used by economists. Some of the most important discrepancies between private and social returns are essentially non-pecuniary and not quantifiable. The impact of parental (especially mothers') education, for example, on the health and education of their children, community effects of education⁸, the benefits of wide immunisation coverage for children who have not been immunised, or the impact of women's education on contraceptive use and fertility are examples of positive general externalities that are difficult to quantify and do not fit very comfortably within the neoclassical categories of market failure covered so meticulously by Behrman. Yet, these externalities are precisely the grounds on which policy advisers today are advocating human-resource led development strategies for developing countries.

Behrman's review monograph (1990a) evaluating the general theoretical and empirical case, finds little evidence to support a human resource led development strategy to enhance economic growth. In considering the case for government intervention to promote a level of human resource development greater than would be achieved under the market, he notes (1990a, p.8) that positive externalities would provide a justification for such policies on the grounds of efficiency. Within the static and limited dynamic theoretical frameworks permitted by neoclassical economic theory, he then examines the effects of a range of possible externalities/market failures, including distortion costs, technological externalities, increasing returns to scale and the special case of public goods, discontinuities or 'lumpiness' of investments and policy-induced market distortions. In subsequent sections he also examines a wide range of econometric models exploring the role of human resources in economic growth, concluding that there is:

"little systematic quantitative evidence for the proposition that human resource investments cause substantial investment. ...[and] ...[w]hile there is some evidence that human resources contribute to development in general and to growth in particular, there is virtually no evidence that the social gains exceed the private gains so that promotion of human resource policies are warranted beyond the ones associated with education and health. " (Behrman 1990, pp.89-90).

Those more sceptical of the quality of data used in the quantitative models and the specifications of the models themselves are likely to be less convinced than Behrman by this very thorough but narrowly econometric review. Sociologists and others raise more fundamental political economy questions about the most basic assumptions of the human capital model. In particular, they question the assumption that human resource decisions can be analysed independently of the political processes or institutional structures of individual countries. Bowles (1978) (see also Bowles and Gintis 1975), for example, doubts that decisions made by

⁸ Caldwell (1980) has suggested that such community effects account for the fact that a poorly educated mother in a well educated community is likely to have lower infant mortality than a more educated mother in a less educated community.

policy-makers about the allocation of funds to education or health, or among the various levels of education, can usefully be regarded as reflecting a desire to increase national income. He argues that decision-makers are primarily concerned with self-preservation and maintaining the *status quo* which supports their own power and wealth. On the one hand, the almost universal finding in studies on the rates of returns to educational investment, that developing countries have been chronically underinvesting in primary schooling, hardly supports the proposition that education is being used as an instrument for either growth or equality (Bowles 1978, p.791). On the other hand, the strong commitment of some developing countries under non-democratic regimes to universal primary education suggests that the externalities associated with investment in primary education are attractive to governments. However, this may also support the political economy argument: in most developing countries the impact of modern communications on people's expectations probably makes a certain level of investment in education, health and general human resource development a pre-requisite for political survival.

Many governments in developing countries, while recognising the need for reasonable levels of growth, have also become increasingly aware that important human resource issues are not addressed by the conventional human capital paradigm. In particular, long-term issues related to the social, political and ecological sustainability of development are largely ignored. Other important human resource issues also lie outside the conventional neoclassical framework. In a number of countries, expensive human resource investments have failed to yield anticipated benefits partly because of low utilisation rates. Immunisation and other public health campaigns, for example, have been unable to achieve high coverage rates in many countries: in Indonesia utilisation rates for government-provided primary health services targeted toward mothers and children are disappointingly low despite continuing high infant and child mortality; and in countries such as Papua New Guinea primary school enrolment rates in many areas remain low while government schools operate well below capacity. The supply-side emphasis of the human capital model on the provision of services offers no guar-

antee that human resource development will actually take place, while human capital theory is unable to adequately account for such failures of demand. The human capital approach to human resource development also fails to account satisfactorily for the persistence of low levels of human resource development among the poor, women, and minority groups.

As a result, the narrowly economic human resource development paradigm is increasingly seen as irrelevant to many of the key human resource questions, particularly demand and distribution issues, that governments must address. Two decades of the influence of basic needs, women in development and employment creation development strategies have focused attention on the social development of human resources. This has sensitised governments to the importance of development goals other than economic growth. While the human capital paradigm continues to have some relevance in the traditional domain of manpower planning⁹ it is gradually yielding to a new paradigm encompassing broader development roles for human resources.

3. Human Resources Development: The New HRD Paradigm

The new perspective of HRD has gradually taken shape within the region served by ESCAP. Developed to a large extent by policy-makers and planners from developing countries in the region, it is most clearly expressed in the Jakarta Plan of Action on Human Resources Development developed by ESCAP and adopted by the forty-eight Governments of the region in Jakarta in April 1988¹⁰. In economic terms, the new HRD concept represents a synthesis of conventional demand-and supply-focused perspectives on the role of human re-

⁹ Even in manpower planning, a growing focus on the short-rather than the long-term and on the more effective utilisation of market mechanisms has led to the adoption of new, more demand-oriented and qualitative approaches to supplement the human capital model (Amjad 1987, Richter 1984).

¹⁰ Although much of the financial support for this initiative came from the Government of Japan, which supported the Expert Group Meeting to provide the technical background to 'an integrated plan of action on human resources development for the ESCAP Region', the final form of the plan of action owed much to ideas and experiences drawn from individual developing countries in ESCAP.

sources in development. However, it is also a perspective that reflects the practical concerns and interests of policy-makers rather than the theories of academics¹¹, and therefore embraces a much wider sectoral and disciplinary scope. This broad, integrated and multi-sectoral concept underpins a new approach to development policy-making and planning that has been labelled "a human resources development strategy for development" (ESCAP 1988). Based on a philosophy that views the development of human resources as a vital component of both social and economic development, it suggests that social development in developing countries is potentially directly productive, because the attributes that determine the quality of life are largely congruent with those that determine the quality of human capital.

While the theoretical foundations of the new paradigm have not been clearly elaborated, they are to be found at the micro level of individual and, more particularly, family and household decision-making. In contrast to the supply-sided human capital approach, the HRD paradigm offers an integrated concept. It links the productive role of human resources that is the core of human capital theory with the consumption role of human resources embodied in the concept of quality of life. The mechanism that links these two roles is rewarded participation in economic activity (paid work or employment¹²), which simultaneously provides individuals with the incentive to invest in human capital and the means for improving their quality of life. On the one hand, individual participation in the benefits of development through consumption and an improved quality of life is seen to depend on access to income through participation in economic activity. On the other hand, participation as human capital in production is motivated by desire for income to support consumption. The willingness of individuals and families to invest in human capital is determined by the potential returns to be gained from such investments. These arise from participation in socially recognised and economically rewarded economic activity¹³.

Not only are such investments in human capital a vital source of increased production, but the most important human capital investments, in health and education¹⁴, are simultaneously highly valued items

of consumption in developing countries and among the most important determinants of the quality of life. Thus, the characteristics that, from a consumption perspective, reflect the individual's quality of life, constitute the quality of the individual's human capital from a production perspective. Rewarded participation in economic activity is the factor underpinning this dynamic model of the interaction between the dual roles of human beings as producers and consumers (Figure 1).

Drawing on both a cost-benefit framework and the NHE, the new paradigm focuses attention at the micro level on the costs and benefits of human resources development decisions within the context of the household or family. In contrast to the supply-side focus of the human capital model, it stresses the role of demand conditions in human resources development and advocating demand-creation strategies that focus on the incentives and disincentives that individuals face in undertaking human resources development. It emphasises the derived nature of the demand for human resources development, and has encouraged the promotion of demand-creation strategies in areas of human resources development such as health.

Extending the approach of the NHE, the HRD paradigm emphasises the importance of institutional structures and the need to determine the specific (and usually differential) impact of costs and benefits on individual household or family members. Stressing the critical importance of incentives for investment, the institutional approach

¹¹ This partly explains the lack of a well-articulated theoretical foundation.

¹² Again, paid work and employment are broadly defined to include subsistence production, in which human capital is rewarded with a share of production, and self-employment. However, unpaid family labour and most unpaid women's work, which do not provide the worker with personal control over income in cash or kind as a direct consequence of the work, do not constitute rewarded participation in economic activity in this sense. They therefore provide weak incentives for investment in human capital.

¹³ Some groups, especially women and children, may participate in economic activity but not share directly in the income benefits of that activity because their status as unpaid family workers does not produce a monetary (or socially recognised) reward. Their access to the income benefits is indirect and depends on power relations within the family or household.

¹⁴ Both broadly defined to include all aspects of mental and physical fitness and all aspects of knowledge, attitude and skill formation.

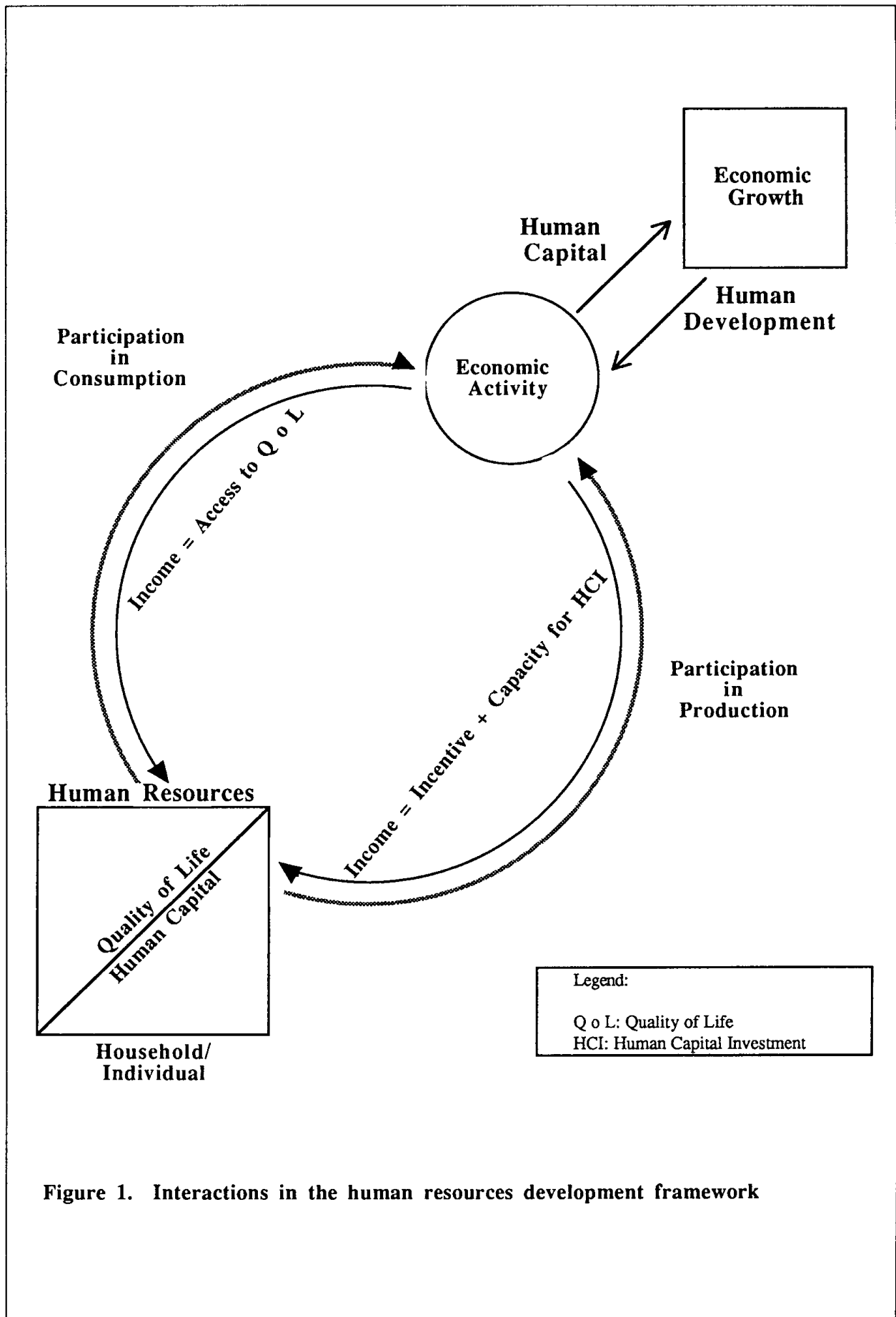


Figure 1. Interactions in the human resources development framework

of the HRD paradigm also recognises that costs and benefits may affect individuals differently, particularly since the incidence of costs and benefits are likely to be felt at quite different periods of time. Both these factors are particularly important in developing countries because the most critical human resources development decisions — those relating to the health and education of children — are made by parents, who must bear most of the costs but may not receive commensurate benefits. The greatest benefits of human capital investments are obtained only when the children have attained adulthood and entered the labour force, by which time they may have also left the natal household and parental control.

This approach also suggests why the development of women's human resources is given particularly low priority by households in societies such as those of South Asia. First, it offers very low private returns due to low female labour force participation rates and, second, while the families of girls are expected to bear the cost of investments in their health and education, the benefits will be gained by the families/households of their future husbands. Faced with severe resource constraints, poor families therefore act quite rationally by investing more heavily in sons than daughters.

Like the human capital model, the most important applications of the HRD paradigm lie in the realm of public policy. The general congruence of quality of human capital and quality of life at the individual level provides the basis for an integrated and balanced HRD-focused strategy for the nation as a whole that explicitly seeks a balance between social and economic development. The HRD strategy for development promotes the kind of economic growth that leads to and is compatible with social development, while at the same time promoting the kind of social development that is consistent with and contributes to economic growth. It thereby seeks to avoid the Sri Lankan experience where substantial investment in human resources produced a comparatively high quality of life but could not be sustained because most of this human capital was not utilised effectively to generate sufficient economic growth. Similarly, it seeks to avoid the experience of countries such as Pakistan, where the quality of life of the majority of the population

provides an inadequate basis for the investment in human capital likely to be required to support modern economic growth.

4. Policy Implications of the HRD Paradigm

The new HRD paradigm has a number of important implications for policy formulation and programming at national and local levels. This section examines several that differ from those usually associated with the conventional human capital model of human resource development. They focus particularly on the more micro levels of individual development programs, on local-level implementations, and on household and individual human resource behaviour.

4.1 Employment Policy in the HRD Paradigm

Employment policy occupies a pivotal role in the implementation of an HRD strategy at the macro level for two reasons: employment broadly defined is a key means of creating output and economic growth, and it is also, both directly through the income it yields and indirectly through its effect on self-esteem and personal identity, the main instrument of individual access to an improved quality of life. Without efficient utilisation of human resources in production, the creation of quality of life will eventually encounter resource constraints. Conversely, the participation of human resources in production, if unaccompanied by a commensurate improvement in the quality of life, will produce poor economic results in the long term due to a lack of incentives for investment in the higher quality human capital that the economy will later need.

4.2 Integration and Coordination

An integrated approach to the formulation of an HRD development strategy and a coordinated approach to its implementation are essential to ensure achievement of a balance between economic and social development. On the production side, the strategy must ensure that human capital investments are effectively utilised in production, and that productive activity is complemented by appropriate human capital formation. On the consumption side, it must ensure that the owners of human

capital receive adequate economic rewards, and that, in contributing to a higher quality of life, these rewards provide an effective incentive for further human capital formation. At the national level, an integrated approach to HRD also demands a balanced development strategy that focuses on both economic growth and social development, and strives to make economic and social change at the community and national levels compatible and complementary.

Governments facing serious budgetary constraints tend to regard most expenditures on human resources as social expenditures and essentially unproductive. In resource-poor countries, allocations to health, education and other aspects of social welfare and development are conventionally determined as a residual only after other more productive expenditures have been covered. Increasing budgetary pressures have persuaded some Third World governments to curtail expenditures on health, education and poverty alleviation programs because they are unproductive luxuries that the nation can no longer afford.

The extensive overlap between quality of life and human capital expenditures on human resources identified by the HRD paradigm suggests that this view may be inappropriate for very poor countries and for the poorer regions of many developing countries. At very low levels of human resources development most 'social' expenditures are likely to be potentially productive from a longer-term perspective. Extremely low levels of literacy, education, health and nutrition provide such a poor quality of life that inter-generational transmission of poverty and disadvantage is almost inevitable. The main development priority should be to break this vicious cycle, particularly in respect of the second generation. The HRD paradigm suggests that the cycle can be most effectively broken at the local level, by programs that take account of the way in which incentives and disincentives affect particular kinds of individuals.

4.3 The Micro Level: Incentives, Disincentives and Targeting

Whereas the policy role of the human capital model was largely restricted to public investment deci-

sion-making at the macro level, the new HRD paradigm draws on its understanding of micro-level processes to provide inputs into human resources policy formulation, planning and programming, particularly at the grassroots level. While many of the approaches that it advocates are not new, the HRD paradigm provides a stronger and more coherent rationale for their adoption. In general, the paradigm's approaches arise from two particular aspects of its perspective of human resources development. The first is its emphasis on the critical role of micro-level incentives and disincentives in providing the motivation for human resources development, and the second is its view of human resources development as a dynamic process in a changing world.

HRD programs need to take into account the incentives and disincentives facing the individual, and must be specifically targeted towards disadvantaged groups who typically face weaker incentives and stronger disincentives for human resources development. The HRD paradigm calls for a new emphasis on demand-creation in human resources development, in which the impact of both monetary and non-monetary costs and benefits on individuals' access to human resources development must be considered. The disincentives, in particular, are likely to be non-monetary and arise from particular institutional (often social and cultural) structures. Human resources development programs directed towards groups such as women or the rural poor that do not allow for such differences are likely to be ineffective, either because of low utilisation rates or because they are captured by people who are not disadvantaged. Targeting therefore improves the effectiveness of human resources development strategies.

The HRD paradigm also advocates targeting to improve the efficiency of human resources development strategies. Due to its low quality, the human capital of disadvantaged adults is not fully utilised in production, leading to a poor quality of life for their families, particularly children. Low levels of adult education and skill, low productivity, low earnings, high levels of underemployment and unemployment, and low levels of income are inevitably associated with poor health, low school enrolment rates among children, high infant and

child mortality, low levels of contraceptive use, high fertility and low expectation of life. Disadvantage is thus passed from parents to children in a vicious cycle. In these circumstances, human resources development offers potentially high returns, especially as the social returns for quite modest, low-cost improvements are high due to the existence of positive externalities¹⁵. Similarly, the vital human resources development role of certain kinds of human resources, such as teachers and other educators, health personnel, and government workers, offers particularly high social returns to investment in their human capital, justifying human resources development programs targeted towards these 'enabler' groups.

4.4 The Role of Women in Human Resources Development

The paradigm's strong promotion of women's human resources development is a logical extension of its emphasis on targeting. In most developing countries, women are the largest single disadvantaged group, with much lower levels of human resources development than men. Women are also primarily responsible for the nutrition, health and early education of young children, which provides the foundation for their subsequent human resources development, and tend to be more heavily involved than men in crucial areas of HRD such as health, fertility and the education of younger children. They thus constitute a key enabler group, with significant externalities accruing to investments in their human resources development.

The HRD paradigm also identifies major obstacles to adequate levels of women's human resources development in most developing countries. The existence of externalities leads to wide divergences between the private and social costs and benefits of investments in women's human resources development. As a result, private expenditures on women's human resources are much lower than would be economically efficient. This is exacerbated by weak household-level incentives for expenditures/investments on human resources development for women, due partly to their low levels of participation in economic activity. Rural women, in particular, are often doubly disadvantaged because while many are actively involved in productive activity

as unpaid family workers in agriculture, this is neither socially recognised nor monetarily rewarded. Especially in the more conservative rural areas of developing countries, the non-monetary costs of human resources development for women that arise from restrictive social norms and customs, social disapproval and the associated psychological costs are also often quite high, both for the women and their households. Most obstacles to women's human resources development are generally more significant for poor and rural women, lending added force to the case for careful targeting of programs to these groups.

4.5 Programming for HRD as a Dynamic Process

The HRD paradigm's recognition of human resources development as a dynamic process that takes place in a changing world is contributing to pressures for new and more dynamic approaches to human resources development programming. Conventional approaches tend to assume a static world. Programs are carefully designed, usually in a location far from the operational site and frequently with long delays between design and implementation. The program is implemented only after it has been fully developed and remains largely unchanged over an extended period, despite often rapid changes in the local situation, some of which may occur as a direct result of the program itself. Monitoring takes place, if at all, only after the program has been in operation for a number of years. Such models of program development also tend to assume a uniform clientele such that identical programs can be implemented across the length and breadth of countries that are often geographically or culturally very diverse. By contrast, the HRD paradigm requires a flexible programming model, in which program design, implementation and monitoring occur si-

¹⁵ Behrman (1990, 1990a) reviewed a large number of econometric studies examining some of these externalities. Due to technical deficiencies in the analysis, he found most to be suggestive rather than definitive (Behrman 1990a, p.127). However, he did acknowledge that lack of parental schooling appeared to be an important mechanism for the inter-generational transmission of poverty and that mother's schooling appeared to be a significant determinant of nutritional status, especially for children (p.125). Many non-economists would consider the qualitative evidence to be more convincing than econometric exercises utilising varied and debatable theoretical models on data of limited quality.

multaneously and continuously, at least during an extended development phase, in order to adapt centrally identified program parameters to specific local conditions and continuously changing conditions. While a programming model that meets these requirements has yet to be devised, human resources development policy-makers and programmers, particularly at the local levels, are becoming increasingly aware of the need.

5. HRD: A Paradigm Shift

This paper suggests that an important paradigm shift is taking place in contemporary concerns about the role of human resources in development and the relationship between individual behaviour at the micro-level and social and economic development at the aggregate level. To date, the paradigm shift has taken place largely among and under the direction of policy-makers and planners, rather than academics. The narrowly economic human capital model, with its emphasis on the productivity of human capital and maximising returns to scarce financial capital invested in human resource development, is gradually being supplanted by a broader perspective that seeks a balance between economic and social development, and links the productive role of human resources as human capital with their role as consumers of an improved quality of life. At a regional level, the Istanbul Roundtable on Development (1985), the Jakarta Plan of Action (1988), recent work by the Commonwealth Secretariat Human Resource Development Group and the wider currency of the recent UNDP *Human Development Reports* are indicative of such changes. The essential link between social and economic development at the individual or household level is rewarded economic activity, which provides the incentive for investment in human capital and the means for improving quality of life. This emphasis on the role of such incentives at the micro level, and on the linkages between social and economic change has important implications for development policy that are being increasingly recognised by Third World policy-makers and planners. However, they have tended to be rather overlooked by the conventional economic approach to human resources development, which has tended to concentrate largely on narrow economic concerns and to focus more on macro-level issues. Although flawed in a number

of important respects that need to be taken into account (Corner 1993), conventional neoclassical economic theories offer some useful tools for dealing with many of the issues and problems that face development practitioners in implementing HRD strategies for development. Perhaps the time is ripe for a change of focus in the economic theory of human resources development.

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