

## Investing in Human Resources

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***Abstract** – Investing in human resources is a taboo in many countries worldwide. Unlike in undeveloped and transitional economies, in countries with developed economic system there is an open debate about the need to analyse educational policies and investment policies with an aim to increase quality of human resources. There are few blind spots which can substantially reduce long-term value of human capital, and diminish level of investments' efficiency in educational systems.*

### Introduction

As a reply to labor market demand where on one side real wages of highly educated and qualified labour force have increase, and on the other side the wages of lower qualified and educated labor have been reduced, there is a renewed interest for creation of policy which may enforce social productive knowledge worldwide. Politicians and sociologists often raise question about consequences of economic inequality. It seems that it is close for a consensus to be reached, by which an improvement of qualification and education of nonqualified personnel would lead to their easier adoption by society and reduction of inequality in wages.

This paper reviews the current policies of knowledge creation. As a result of years long school development policy there have been certain roles widely accepted. There is a need for an education system of the wider scope so as to reach the system in which people increase their knowledge and qualifications in such a way which is in accordance with modern economy needs.

### Contemporary World Trends

Current practice in education and qualification of people for job are based on wrong standards of creation of socially required skills. Creators of such standards have a sight only through a prism of reached knowledge tested on IQ tests regardless of social knowledge, self-discipline and several non-cognitive skills which enable success in life. Overweighting of cognitive and academic "intellectuals" whose qualities are measured on tests which do not cover social adaptability and motivation, raise doubt in valuation of investments made in development of human resources.

Conventional wisdom represented by politicians, educated person and many academics – especially professors in education – place formal educational institutions on the central spot of creation of required knowledge in modern economies. Such a practice denies favorable role of families and companies in knowledge and many other skills improvement needed by modern economy. Popular discussions of knowledge creation almost always focus on investments in schools or educational reform, disregarding important non-institutional sources of knowledge, which by a great extent, maybe more than formal educational institutions help on creation of several skills needed in the world today.

### Investments in training and education

Current situation in formal education, disregarding informal and non-institutional sources of knowledge is a result of three wrongly factors misunderstood by politicians and analysts.

The first is in the very nature of human and comes as a result of not understanding the fact that learning is life long process and that a lot of learning comes out of schools. Learning begins in the childhood, much before formal education begins and is continued through whole life. Recent research in psychology have shown the vital role of knowledge creation in preschool age, when skills and motivation are created in families and non-institutional environment. Success or failure in this phase leads to success or failure in school, and further on after school. Early learning triggers later learning and early success feeds later successes, as well as failures bring more failures in grown ages. Formal or institutional education is important aspect of educational process, but according the recent research it is not always most important.

In the publication "Colerman Report" (1966) we have seen that family and environment, not only school, according to test results have a key role in creation of motivation and education success. Broken families create bad skills and lowly motivate students who fail in schools. Favourable family oriented policy may be more effective on improvement of success level in schools than direct investments on lecturers' wages or computer equipment. It is more expensive to follow the policy of covering the failures of early stages than too invest in a sophisticated education system, and at the same time it does not recover lost potentials even if investments are very high. The later in life we try to change mistakes from the childhood, more expensive it would be.

On the other hand, work experience and skills learned in jobs are skipped in modern debates because they are hardly measured. After school education is a source of knowledge creation which covers 1/3 to 1/2 of total knowledge in the modern economies (Heckman, Lochner i Taber, 1998). Since a lot of such education is made in non-formal environment, educational technocrats and politicians deny it for the reason of equalising such knowledge with knowledge reached in schools. Once we understand the importance of non-formal education and knowledge creation, then we may begin with creation of knowledge improvement policy on the other way.

The second factor for many education planners and policy creators is overweighting of tests results and measuring of cognitive skills as indicators of success in education. It is certainly correct that cognitive skills are important in life and there are proofs of profitability of investing in them (see Cawley, Heckman i Vytlačil, 1999), but such a narrow focus on cognitive, diminish the full scope of socially and economically important non-cognitive skills and motivation, which are learned in schools, families and other environment. A special accent ought to be put on the way how are evaluated investment programs results. On one hand the enriched investment programs in early ages of life do not significantly change the IQ level, but on the other hand they significantly influence non-cognitive skills and people social status.

Another mistake often made in analysis of human resources policy is the assumption that development of skills is completed in early life age. Static concept of skills is opposed to many researches made on children development. In early ages of life, core skills can be changed. Education creates knowledge, which as a result creates a need for education.

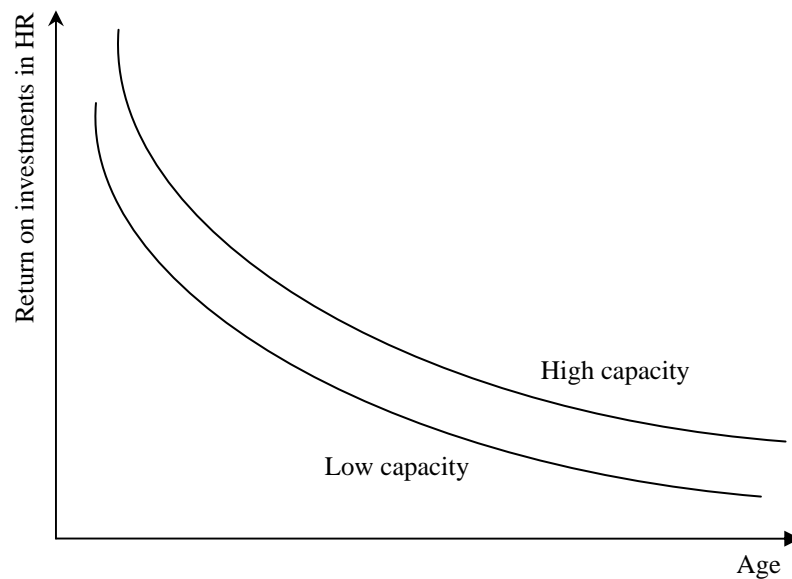
The third factor of misunderstanding in visions of most of the education planners and policy creators is mistrust for parents' ability to wisely choose their children education path if choice is offered. There is disbelief to competition and system in which there is more than one choice for improvement of success in education.

## **Conclusion**

All researches made in past give advantage to systems with high competition. Monopoly in any system of economic and social life prevent development of needs and preferences and ignore well being of people, unlike systems with developed competition. In analysis of competition influ-

ence in the education system it is important to separate systems where there is existent educational policy from the others where there is no such policy. The question is not whether it is necessary to invest in education, but rather what should be the level of these investments. Increase to low level of investments would bring significant results. Increase of education quality is visible when there is low level of investments. If investments are high already, increase would bring no visible changes. For example in USA direct cost subventions for students in most state universities is 80%. The ongoing debate is not about necessity of subventions but about possibility of increase to above 80%.

Graph 1 – Return of investments in HR in respect to age



There is a fourth misunderstanding which is not covered in this paper and needs deeper analysis. In many countries in the world large numbers of under qualified personnel are becoming burden to companies and society as a result of increase in qualifications required. Common mistake made by policy makers is that retraining of these people would easily help them keep their jobs. No one calculates the cost of such retraining, and in the age of strict budgets, it is obvious that investments in retraining would bring no results except to politicians. The highest cost of these investments is turning the emphasis of education of younger people who could learn faster (graph 1) with more effective and higher probability to have positive results in long term.

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