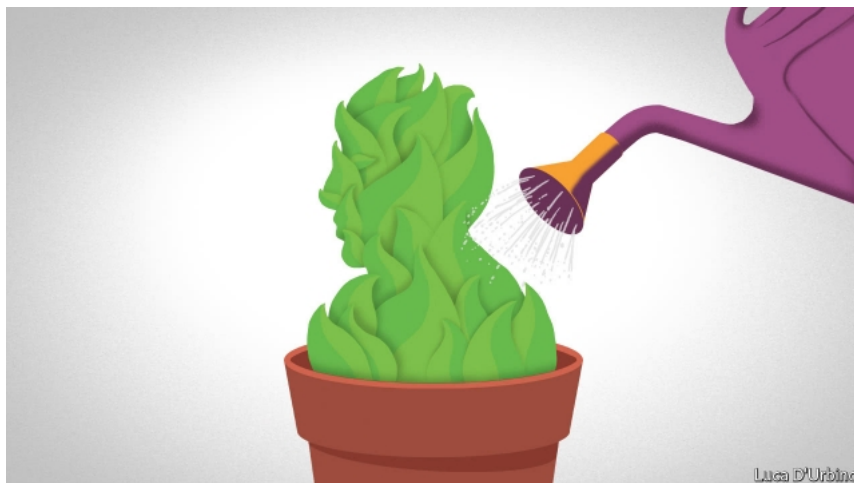


Let's All Work to Grow Human Capital!

Written by Les Detterbeck
Wednesday, 09 August 2017 10:03



Your biggest financial asset may be your human capital. Yes, perhaps even more important than your investment portfolio, house, real estate and other assets. Simply put, human capital refers to the abilities and qualities of people that make them productive. There are many factors that contribute to human capital. Knowledge is the most important, but discipline, punctuality, willingness to work hard, personal values and the state of one's health are among the other factors.

Generally, younger people will have more human capital than financial capital. In an economic sense, their human capital is the net present value of their lifetime earnings. In a larger sense, human capital is our ability to add value to others and improve their lives and, by doing so, improve our own. Decisions young people make early on regarding their education, their careers, their job choices, life partner choice, etc. will all have huge impacts on their eventual financial capital and human capital. Key questions they should answer include "What is your passion?" "When are you at your best?" and "What allows you to engage your human capital at the highest level?"

Historically, the cross-over point where financial capital starts to exceed human capital occurs when one is in their 50s. However, with people living longer or pursuing "encore" careers, human capital may remain a significant personal asset for octogenarians and beyond. A perfect example is 86 year old Warren Buffet who is committed to growing human capital: "Investing in yourself is the best thing you can do. Anything that improves your own talents cannot be taxed or taken away from you." Regardless of your age, human capital is like a garden, you need to continually give it your time and effort in order for it to grow.

For decades after WWII, the G.I. bill and the American economy pushed workers to build skills and maximize their economic potential. This was arguably the greatest period of shared

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prosperity in the history of capitalism. Last week's Economist featured an article about University of Chicago Nobel Prize winner Gary Becker's concept of human capital. Dr. Becker found that 25% of the rise in per-person incomes from 1929 to 1982 in the U.S. was because of increases in schooling. Other components included on-the-job training and better health. Dr. Becker was fond of pointing to Asian economics, such as South Korea and Taiwan, with few natural resources, who have invested in human capital by building up their education systems. There is no debate that well-educated populations have greater incomes and broader social gains. There is a debate over whether the government should supply the education or students should bear the cost; yet both will receive the rewards.

Dr. Becker also wrote about "good inequality" and "bad inequality." Higher earnings for doctors, scientists and computer programmers, for example, help motivate students to push harder and achieve top paying jobs. On the other hand, Dr. Becker wrote, when inequality becomes too extreme, the schooling and even the health of children from poor families suffers, with parents unable to adequately provide for them. Inequality of this sort "depresses human capital, leaving society worse off."

Certainly, many, if not most, of our DWM blog readers are committed to increasing and using their human capital to benefit themselves and others. But, there are many Americans who do not or cannot. Some are in occupations that have been hit hard by technological changes, others are in declining industries, others have limited education, and others have little opportunity. As a result, there are lots of unhappy people due to this huge current gap between full human capital and employed human capital. Can you imagine our country where the vast majority of our 323 million people were increasing their human capital and using it to benefit themselves and society? Can you imagine an annual economic growth rate of GDP of 5-10%, like it was in the 60s and 70s, compared to the 2% it is currently? Can you imagine hundreds of millions of Americans happy with their shared prosperity and with optimism for the future?

Let's make growing human capital a lifetime commitment. And, let's also commit to using our human capital to help others grow theirs. It's up to each of us. Mahatma Gandhi put it so well: "You must be the change you wish to see in the world."