HUMAN CAPITAL FORMATION

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Common definition of capital

Produced durable goods used in the production of goods and services
Three Dimensions of Human Capital

Familiar

Social

Economic
The Paradox of Human Capital

The Paradox: although most of the investment in human capital is made by families, the return on that investment is reaped by society (in addition to the individual itself)
From the Paradox follows a Dilemma

- The paradox once again: although most of the investment in human capital is made by families, the return on that investment is reaped by society (in addition to the individual itself)

- The dilemma: what to do about the lack of incentives and the inefficiencies resulting from this paradox

- The rising perception on the part of families that the return on their investment is inadequate leads to undesirable demographic outcomes

- Incompatibilities between family and social motivations joined with social and economic inequalities lead to serious (social) inefficiencies in investment decisions

- An obvious solution

  - Socialization of investment in human capital

  - But, what about implementation?
An “obvious” route: government transfers (but it does not work!)

The conventional route involves increased taxation and has, especially in the case of developing countries, insurmountable political and economic limitations.
Another route: securitization

* A market solution: securitization of human capital

* Savings from the economically active population would be used to finance education and other HC expenses of the young

* This promotes efficient inter-generational financial flows, thus ensuring that human capital needed to take the economy into its next cycle

* Investment flows are socialized and take the form of loans rather than grants
FLOWS ASSOCIATED WITH THE CREATION AND CIRCULATION OF HUMAN CAPITAL (HC) SECURITIES

Δ  Goods and services
L  Labor
$  Money
β  (anonymous) HC securities
βo  (named) HC purchasing power titles
β⁺ Accrual of (named) HC securities
β⁻ Redemption of (named) HC securities

Although all flows take place at all times, flows represented by thin lines are associated with a given cycle and those by thick lines correspond to the next cycle (of the same generation).

Dotted lines connect flows tied to each other.