

## ***Book Reviews***

**Jere R. Behrman.** *Human Resource Development? Review of Issues and Evidence.* New Delhi: ILO-ARTEP, 1990. 105pp.

In the recent literature on development economics, the adjective 'human' is encountered with increasing frequency. On the one hand, the 'human resource-led development (HRLD) strategies' of the kind that were presumably adopted by the Newly Industrialized Countries of Asia are being increasingly cast as the leading means of achieving rapid economic growth. And on the other hand, in a manner that is reminiscent of the 'growth versus distribution' debate of the early 1970s, we are being urged to set our goals more in terms of broad 'human development' of the society rather than merely its 'economic growth'. These new trends in the economic development literature are evident from the contents of the recent academic journals as well as from the activities of the various international organizations. The World Bank's choice of 'Poverty' as the theme for its 1990 World Development Report, the United Nations Economic and Social Commission's April 1988 pronouncement of the 'Jakarta Plan of Action' regarding human resource development in the ESCAP region, the United Nations Development Programme's recent Human Development Report, and the Asian Development Bank's analysis of the role of human resources in economic growth in its 1990 Asian Economic Outlook are cases in point.

These new trends have raised some important questions regarding the nature of human resources and their role in the process of the society's development. In fact, over time human resource investments have come to entail more than the traditional areas of education and training of all kinds. Now the concept also includes a fairly broad group of investments encompassing such areas as health, nutrition, home environment of the children, and production as well as the diffusion of knowledge. Some would even include human freedom and the country's political system in the above list. Thus, the question of an appropriate public policy towards human resource investments becomes more important and, perhaps, more complex than ever.

In the light of the above facts, this book by Behrman, an eminent economist with significant contributions to many areas of development economics, is a very valuable addition to the literature. While the book focuses on the 'growth dimension of development', it presents a generally applicable framework which the author

rightfully expects to 'carry over to most, if not all, common broader definitions of development'.

Essentially, Behrman addresses the following question: Given that many developing countries would like to change their comparative advantage from low-skill-labour intensive to relatively high-skill-intensive goods and services, to what extent can we justify an activist public policy that would accelerate the rate of relevant human resource investments over and above 'what would occur in the normal course of development'? Apparently, the author perceives the 'normal' amount of human resource investments to be the one that will presumably come about as a result of private maximizing decisions made in response to market prices in an environment of no market failures. He then seeks an answer to the above question by making an appeal both to analytical considerations (Chapter 1 of the book) as well empirical evidence regarding human resource-led development possibilities (Chapter 2 of the book). The third and the last part of the book gives a summary and main conclusions of the study.

In Chapter 1 of the book, Behrman develops essentially neoclassical analytical frameworks to systematically evaluate the relative desirability of an activist human resource investments (HRI) policy in different contexts which, in fact, are illustrated well by the subsection headings in this chapter. They are: 'A Simple Static Starting Point', 'Dynamic and Disequilibrium Considerations', 'Growth Models with Human Resources', and 'Micro Determinants of Human Resource Investments'. The notable refrain in each case is the question: Are there any gains in efficiency to be had by following an activist HRI policy?

The static framework is based on the standard tools of analysis such as a production possibilities frontier (PPF) and the corresponding Edgeworth box's 'efficiency locus'. This framework is used (a) to illustrate that in the absence of market failure, the perfectly competitive market solution is Pareto Optimal (the fundamental theorem of welfare economics), and (b) to review conditions under which markets may fail. However, the main merit of the static framework is to set the stage for the dynamic analysis of an appropriate HRI policy.

In the dynamic context, the essential argument can be understood by realizing that, at the aggregate level, economic growth can be represented by an outward shift of the PPF. In principle, HRI can favourably affect the nature of such shifts as well as the economy's speed of adjustment to the new PPF. However, this is a necessary but not a sufficient condition for an activist policy. The latter may be warranted only when private and social benefits/costs diverge *and* the first best option is in fact a HRI-related policy or a non-HRI-related first best policy is somehow not available. In fact, by using the above criteria in a persuasive manner, Behrman is able to dismiss many of the arguments, such as production discontinuities that are commonly presented in support of an activist HRI policy. On the other

hand, it is shown that there exist important factors such as the informational externalities associated with exploring new markets that may allow us to argue for socially beneficial intervention in the market.

Macro growth models that specify a pivotal role for HRI are an exciting recent development in the field of human resources. In fact, at an analytical level, some of the most well articulated support for an activist HRI comes out of such models. Increasing returns to scale and externalities associated with production/diffusion of knowledge are the most common basis for such a support.

Finally, Behrman uses Becker's Woytinsky Lecture framework to analyze the role of such factors as externalities and capital market imperfections in making the social rate of return larger than the private one for HRI decisions by individuals. He then goes on to describe the Mincerian earnings function specification, which is most commonly used to estimate the private rate of return to education. Though, in principle, this specification can be modified to estimate the social rate of return as well, the process is beset with many practical difficulties.

Incidentally, Behrman ends this chapter by critically reviewing some of the recent characterizations of the human resource-led development.

In light of the various analytical considerations presented in Chapter 1, some of the relevant testable hypotheses are: To What extent are the assumptions underlying the recent macro models borne out empirically? Do human resource investments cause economic growth at the macro level? What about the HRI-productivity link at the micro level? In Chapter 2 of the book, Behrman reviews the results from a large number of studies to determine the nature of the existing evidence regarding human resource-led development possibilities. Such studies have been grouped in three categories: partial equilibrium evidence on rate of return to HRI, country studies, and cross-country studies. The above review of the evidence leads Behrman to reach the following two conclusions. First, the apparent evidence showing an association between HRI and productivity, both at the macro as well as the micro level, is much weakened once we control for other relevant factors. Inadequate controls for such relevant factors as the quality of investments, ability, and family environment have to led to upwardly biased estimated rates of returns in many of the micro studies. Second, the existing evidence on social vs. private benefits/costs indicates that, in general, there is not much empirical support for an activist HRI policy except for 'basic education and health'. However, he also points out that some relevant hypotheses, which in a *prima facie* sense lend support to an activist HRI policy, still need to be tested empirically. It would be particularly interesting, it is pointed out, to test the realism of the assumptions underlying the recent human resource-oriented growth models.

This book by Behrman is an extremely significant contribution to the literature on the important subject of human resource-led development, a topic in which

interest is growing fast. Since the frequency of unsubstantiated assertions and claims tends to grow in direct proportion to the growth of interest in an area, this book is particularly timely because it calls attention to the importance of adopting consistent and objective criteria for public policy decisions. In fact, it is not difficult to agree with the author's suggested approach to determine the desirability of an activist HRI policy. It is sort of a hierarchical approach which asks us to first evaluate the given issue analytically, then see what light the empirical evidence sheds on the analytical hypotheses, and finally, if public policy is warranted, choose the 'best' policy. The time-honoured methodology of evaluating social choices in terms of efficiency vs. equity trade-offs can be applied equally fruitfully in the case of HRI.

While the neoclassical analytical framework developed by the author does its job well by encouraging us to think about the issue of an appropriate HRI in a rigorous manner, we should not forget that such analysis has its limitations too. For one thing, practical aspects of any efficiency-related redistribution are often swept under the proverbial rug. If, for given prices, initial distribution of endowments does not correspond with the core in which the optimal allocation lies, then, in theory, non-distortionary taxes/transfers can solve the problem. However, in the real world such redistributions are often easier said than done. Witness the messy practical problems associated with the attempts to redistribute land in many developing countries when such redistributive reforms are often considered critical for growth and efficiency.

Another point that is worth noting has to do with the empirical evidence presented by the author regarding possible upward biases in the estimated rate of return for such HRI as education. In fact, Behrman was one of the pioneers who initiated this line of enquiry which has entailed significant advances in methodology and very clever use of data, especially in the case of studies that used data on siblings (or other kin) to control for unobserved family factors. As a result of such studies, while there is now a widespread realization that some of the conventional results that do not control for relevant variables overstate the marginal effects of HRI, there still is not a consensus on the exact degree of such an upward bias. Also the methodology underlying some of these studies is not without its detractors.

In any event, the overall framework presented by Behrman is viable and, in fact, it lends itself to some interesting extensions, such as allowing us to relax Behrman's assumption of an unchanging international price as a given country changes its comparative advantage. In a dynamic general equilibrium sense, simultaneous development of several countries would increase the relative supply of high-skill products which, *ceteris paribus*, could raise the relative price of the products embodying traditional skills. Thus, there may be less of an incentive to change one's comparative advantage in favour of the high-skilled products if we consider possible changes in the international relative price.

Another idea which is worthy of further exploration is that of ranking all feasible policies by some efficiency criteria in order to pick the best policy. The author touches upon this interesting notion (p. 5) and it could be developed further with the expected high payoff.

In terms of the technical quality of this publication, the book has all the trimmings — along with the usual academic fare such as an author index and a subject index, we are also treated to an executive summary. However, the reading pleasure would have been further enhanced if some of the distractions due to occasional printing errors were absent.

In conclusion, this book has many valuable aspects. The basic points it makes are well taken. Since its major finding is that the existing empirical evidence does not justify any significant activist HRI policy, its implied prescription is that we should rely on free market solutions. However, it points out that, analytically, there are several untested hypotheses that imply a bigger role of public policy in HRI than is warranted by existing evidence. In essence, the findings of Behrman essentially amount to a voice of caution urging us to do more research before we go ahead and commit substantial resources to any particular policy option. For the interim period, the author advocates a balanced public policy which could be decided on a case-by-case basis.

The most significant contribution of Behrman's book is that it encourages the use of a consistent, objective, and scientific approach to policy analysis regarding HRI. It does so in a lucid manner that is highly persuasive. The book embodies scholarship of a very high quality and is recommended for academic researchers as well as policy-makers in this field.

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