The Application of Human Capital Theory to Article 27

by

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in

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Article 27(1) of the Convention on the Rights of the Child places a duty on State Parties to recognize the right of children to a standard of living adequate for their physical, mental, spiritual, moral and social development.[1] The Convention links a child's standard of living to aspects of a child's moral and social development. Thus, the Convention perceives the right to an adequate standard of living as extending beyond the basic elements fundamental to the child's right to survival. While the States have a duty to recognize this right, the parents have the primary responsibility to secure it with States assisting the parents in the areas of nutrition, clothing and housing and in the recovery of maintenance.

This chapter discusses the role of human capital in assisting children to obtain an adequate standard of living. Human capital consists of individuals' improved productivity that results from investments made in them.[2] Therefore, increases in human capital are a central component of the ability to obtain an adequate standard of living. The concept of investing in people has a very

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[1] For background materials on the U. N. Convention on the Rights of the Child, see Lawrence J. LeBlanc, *The Convention on the Rights of the Child.* (Lincoln, NE: University of Nebraska Press, 1995) and Geraldine Van Bueren. *The International Law on the Rights of the Child*. (Dordrecht: Martinus Nijhoff Publishers, 1995).

[2] The standard reference work in this field is Gary S. Becker, *Human Capital, 3rd Ed.* (Chicago: University of Chicago Press, 1993)[hereinafter cited as Becker, *Human Capital*]. Also see, Sherwin Rosen, "Human Capital," in John Eatwell, Murray Milgate, and Peter Newman, Ed., The New Palgrave: Social Economics (New York: W. W. Norton, 1989) pp. 136-155.

wide application as it covers not only investments in formal schooling and on-the-job training, but also home investments in family care in the preschool years, improved health, and market information via job searches. The primary result of investments in human capital is a higher income which is a foundation for an adequate standard of living, but the gains from enhanced human capital are not exclusively monetary. Studies show that investments in human capital, especially in education, promote numerous non-income benefits such better health based on better nutrition and less smoking, greater social awareness reflected in a higher propensity to vote and improved birth control knowledge, and a deeper appreciate of the arts.[3]

Clearly, education plays a major role in the acquisition of human capital. However, since education and the States' role in it are covered by Articles 28 and 29, the other influences on human capital will be emphasized here.

The Role of the Parents

Parents have a central role in their children's acquisition of human capital through their investments in their children's knowledge, skills, values and habits. Obviously, these investments involve the parent's time as well as their money. Investments during childhood are crucial to later development, because differences among young children grow larger over time with age and schooling because children learn more easily when they are better prepared.

Having described human capital and the important role that parents play in its acquisition does not provide us with much insight into the incentives for and abilities of parents to provide it to their children. A recognition of the role of these incentives and abilities in human capital theory

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[3] Robert T. Michael, *The Effect of Education on Efficiency in Consumption.* (New York: National Bureau of Economic Research, 1972).

provides valuable insights for Article 27(1). Children have very little control over investments in their human capital as those decisions initially are made by their parents with society later assuming a more active role. As self-interested decision makers, parents' investments in their children are influenced by their constraints of time and wealth and by their preferences. Gary Becker has written at length about the links between parents and children based on the parents' welfare being linked to the welfare of their children.[4] While increasing their children's welfare is a benefit for the parents, it has to be balanced against the costs of those decisions. For example, parents are assumed to maximize the welfare of children when no reduction in their own consumption or leisure is entailed. When costs are associated with investments in children in the form of money or reduced leisure time, the parents' incentives are reduced for them to make decisions that increase their children's welfare.

The consideration of the costs and benefits of children has a central role in determining whether adults have children and how they act toward the children that they have. Increased productivity within a country leads to two effects on the demand for children.[5] As people become more affluent, they want more of all desirable things including children. However, there is a countervailing force since the affluence can only be attained by employment. As the potential earnings from and opportunities for employment increase for adults, the cost of sacrificing employment opportunities to assume parental responsibilities go up. In addition, some of the newly attainable goods and services such as recreational activities conflict with the demands of

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[4] His primary publications on the family are collected in Gary S. Becker, *A Treatise on the Family, Enl. Ed* (Cambridge, MA: Harvard, 1991)[hereinafter cited as Becker, *Family*].

[5] Becker, *Family*, p. 135.

parenthood. Children are desirable, but so are gourmet meals, vacations in the Caribbean and fancy cars. Some adults may conclude that the costs of children are too high and their attraction too low, so they will elect to go childless.

Here we are concerned with adults who have and we assume want children. These parents will invest in their children's human capital so long as the benefits exceed the costs from their perspective. Their investments in their children will be influenced by a number of factors. We would expect investments per child to increase when the parents have larger incomes, are better educated, anticipate a long term relationship with the child, have fewer children, and are not being subjected to discrimination.[6]

Parents experience a financial constraint on their ability to invest in their children when the family is poor and education is privately funded. Not only do more financial resources assist in financing education, but they also can increase travel and cultural activities that also contribute to human capital. These constraints on investments in children probably declined during this century in the United States and in many other countries because incomes have risen and government subsidies to education have grown.

The educational level of the parents is important because educated parents are in a better position to appreciate, encourage and prepare their children for formal education.[7] While less

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[6] A good summary of the factors influencing the acquisition of human capital are contained in Robert Haveman and Barbara Wolfe, "The Determinants of Children's Attainments: A Review of Methods and Findings," *Journal of Economic Literature*, Vol. 33, December 1995, pp. 1829-1878.

[7] Becker, *Family*, p. 179.

educated parents may want to invest in their children by working on their school project with them, they may not be capable of providing that assistance.

A more subtle concern is the durability of the relationship between the parents and the children. Parents would be inclined to invest more in children with whom they expect to have an ongoing relationship, because they will be in a position to benefit from their children's successes and suffer from their children's failures. This influence is particularly important in less developed countries as children are less likely to move away from their parent's location and they can be an important source of support for their parent's later years. Alternatively, these links can be weaker in industrial societies in which both parents and children frequently move. The prospect of divorce also can be another important cause of reduced contact between a parent and a child. If a father anticipates that his marriage is going to be dissolved with the mother receiving custody of the children, he has weaker incentives to spent time and money investing in his children. Under those circumstances, there are fewer rewards from being a good parent and fewer cost from being a poor one.

Number of children in a family has been shown to have a strong influence on the investment per child because fewer funds are available per child. In addition, the incremental value of children's accomplishments tends to decrease as the number of children increases within a family, so that a given investment in a child has a smaller return to parents. Economists observe that the additional enjoyment from commodities decreases as their number increases and that can occur with children. If a couple has only one child, that child can be the focal point of the parents' existence. Alternatively, in a large family the parents can be less aware of and concerned about the accomplishments of each child. The human capital invested in each child, and, hence, the earnings of each child would then be negatively related to number of children as found in many studies.[8] Last, parents who are discriminated against because of their race, caste, or other permanent characteristics anticipate a lower rate of return to investments in their children's human capital and, therefore, have incentives for making smaller investments in their children.

The preferences of the parents can also be important. Different preferences among ethnic groups in the US have significant effects on their children's human capital as some have small families and the children become well educated, while others have big families and the education of children suffers.[9] It should come as no surprise that children from the ethnic groups with small families and large investments in human capital typically rise faster and further than do children from other groups. At the same time, with more flexible access to publicly funded education, there is evidence that the influence of family background in the United States on children's achievements is smaller than in less developed countries.

The Role of Government

The role of the government in children's acquisition of human capital is based on its influence on the forces noted above that result in larger investments in human capital. Parents are more inclined toward investing in their children when they are more affluent, are better educated, anticipate a long term relationship with the child, have smaller families and are not being subjected

[8] Becker, *Human Capital*, p. 22.

[9] Ibid., p. 23.

to discrimination. Increasing the affluence and education of its citizens should be a fundamental policy of all States. When the issue is the funding of education, the State has a central role as noted in Articles 28 and 29. This is especially important because of the difficulties that people find borrowing to fund education, because human capital is poor collateral for lenders. At the same time, it is important to recognize the difference between State funding and State provision of education. There is a much weaker justification for the dominant role of public provision in education, especially at the higher levels.

Anticipating long term relationships with their children has a strong influence on the willingness of parents to invest in their children and the root of these relationships lies with the stability of family relationships. While States should not discourage the geographic mobility of its citizens, it does have a central role in encouraging family stability. As well meaning as they may appear, policies such as no-fault divorce and support for never-married-parent households strongly discourage family stability to the detriment of children.

No-fault divorce discourages the long term commitment and increased specialization by parents--both of which tended to increase investments in children--that has traditionally been the cornerstone of the family relationship.[10] When spouses know that a marriage can be dissolved unilaterally, they become more concerned about their narrowly defined welfare and less about the welfare of their spouse and children. Careers are emphasized over parenting. This is particularly true because divorce is likely to reduce the interaction of at least one parent with the children.

[10] For a discussion of the adverse effects of no-fault divorce on families, see Allen M. Parkman, *No-Fault Divorce: What Went Wrong?*, Boulder, CO, Westview Press, 1992.

While financial support for single parent households appears to solve the problems facing many poor children, it just creates other problems for those children by discouraging family formation.[11] All studies show that growing up in a one parent household, especially when the parent is a never-married woman, results in a lower level of human capital in the form of educational attainment.[12]

Children generally receive larger investments in human capital in smaller families. States can influence the size of families by reducing either the supply of or the demand for children with the recognition that some forces affect both. A reduction in the supply of children can be encouraged by such obvious programs as the broad dissemination of birth control information, while the demand can be reduced by more subtle programs such as increased employment opportunities for women. Higher incomes have been shown to reduce the birthrate, as parents choose to have fewer children and invest more in each child.

Last, the State can encourage investments in human capital by discouraging forces that artificially reduce the returns to investment such as discrimination that is covered by Article 2. The speed with which individuals' incomes converge compared to those of their parents is a measure of the degree of equality of opportunity in a society.

Benefits Extend Beyond the Individual

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[11] Mwangi S. Kimenyi and John Mukum Mbaku, "Female Headship, Feminization of Poverty and Welfare," Southern Economic Journal, 62(1) July 1995, pp. 44-52.

[12] Sara McLanahan and Gary Sandefur. *Growing Up With a Single Parent*. Cambridge, MA: Harvard, 1994.

The benefits of human capital extend beyond the primary beneficiaries increasing the standard of living of others as there is strong evidence that there is a close link between investments in human capital and economic growth in a country.[13] Rates of return on investments in human capital rise rather than decline as a country's stock of human capital increases at least until the stock becomes very large because investments in human capital tend to be complementary. Someone with extensive education is more productive in a society with many educated people. Rates of return on education and other human capital investments are higher in developed than in undeveloped countries.

Long periods of sustained growth result from the expansion of scientific and technical knowledge that raises the productivity of labor and other inputs in production with this knowledge embodied in people. It is clear that all countries which have managed persistent growth in income have also had large increases in the human capital of their labor forces through additional education and training. In a study for the US, it was found that the increase in schooling of the average worker between 1929 and 1982 explains about one fourth of the rise in per capita income during that period.[14]

Compelling evidence of the link between human capital and technology comes from agriculture.[15] Education is of little use in traditional agriculture and, therefore, farming methods and knowledge are passed on from parents to children. Farmers in countries with traditional

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[13] Becker, *Human Capital*, p. 23.

[14] See Edward F. Denison, *Trends in American Economic Growth, 1929-1982,* (Washington, DC: Brookings Institution, 1985).

[15] Becker, *Human Capital*, op. cit., p. 25.

economies are among the least educated members of the labor force. By contrast, modern farmers must deal with highly complex issues such as hybrids, breeding methods, fertilizers, complicated equipment and intricate futures markets for commodities. Education is of great value since it helps farmers adapt more quickly to new hybrids and other new technologies. Therefore, it is no surprise that farmers are about as well educated as industrial workers in modern economies.

Conclusion

Increasing the human capital per child in a State is fundamental for boosting its children's standard of living. By becoming more productive, the children will have higher income earning capacities increasing their material well-being, but they will also be more capable of making welfare enhancing decisions in other areas such as their health and appreciation of their world. Parents will normally be the primary sources of investments in human capital. We would expect investments per child to increase when the parents have larger incomes, are better educated, anticipate a long term relationship with the child, have fewer children and are not being subjected to discrimination. States serve a secondary role by creating an environment that encourages parents to make these welfare enhancing decisions and by funding most education.

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