

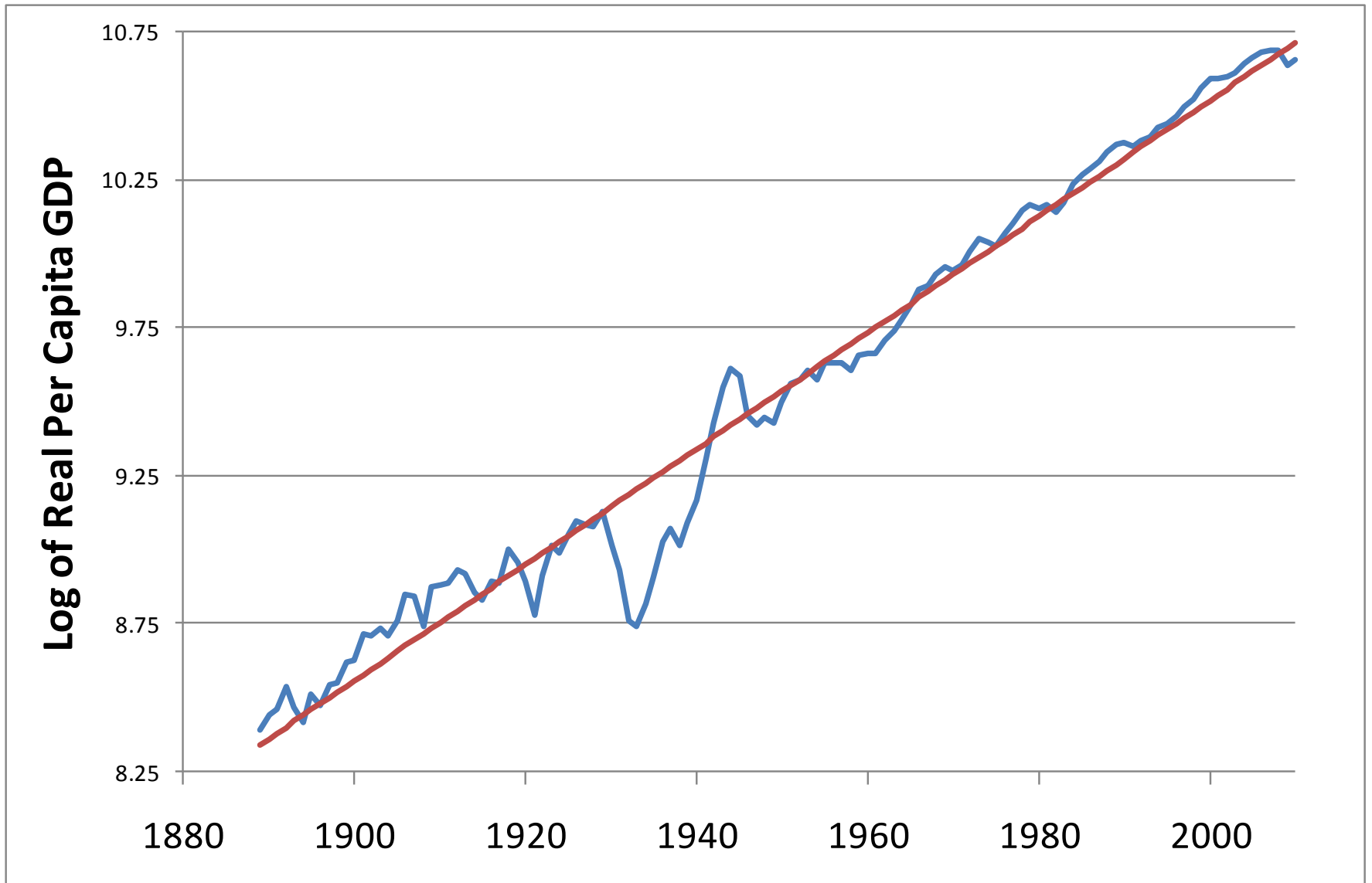
Investments in Human Capital: The People Based Economy

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U.S. Real Per Capita GDP 1889-2010



Where Does Growth Come From?

- There are three primary sources of growth
 - Investment in physical capital
 - Investment in human capital
 - Improvements in technology (knowledge)
- Primary goals of policy should be to
 - Maintain the incentive for physical investment
 - Provide an environment that fosters the growth of human capital
 - Provide rewards for innovation

How do People Fit into the Economic Picture?

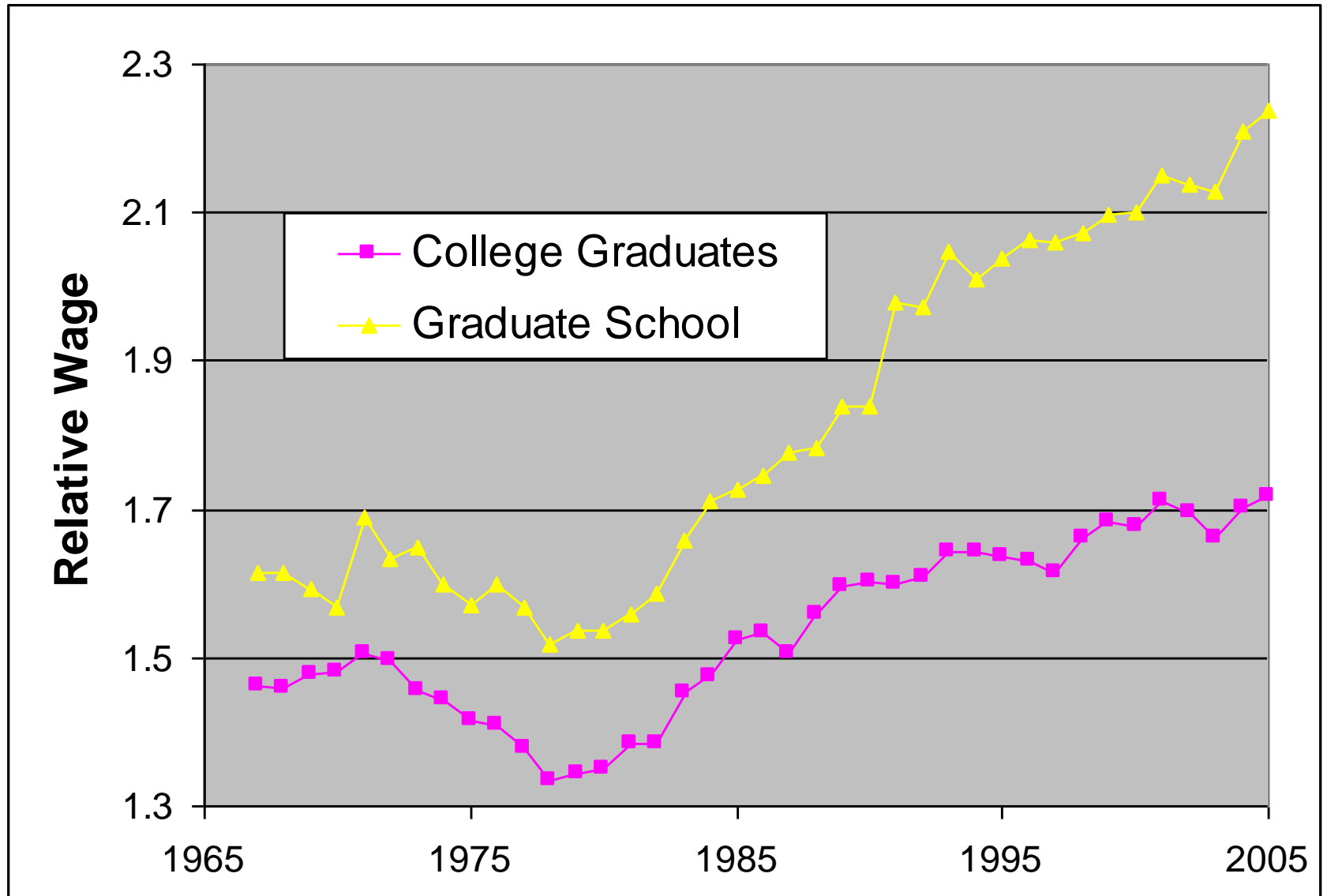
- People are important as both inputs and outputs
- Human capital is our most important input
 - Accounts for roughly 65 percent of our productive capacity
 - With increasingly mobile capital and technology, countries will be increasingly defined by their human capital
- The production and maintenance of human capital is our most important output
 - Education
 - Healthcare
 - On the job training

Human Capital has Been at the Center of Some of the Most Important Economic Developments of Our Lifetimes

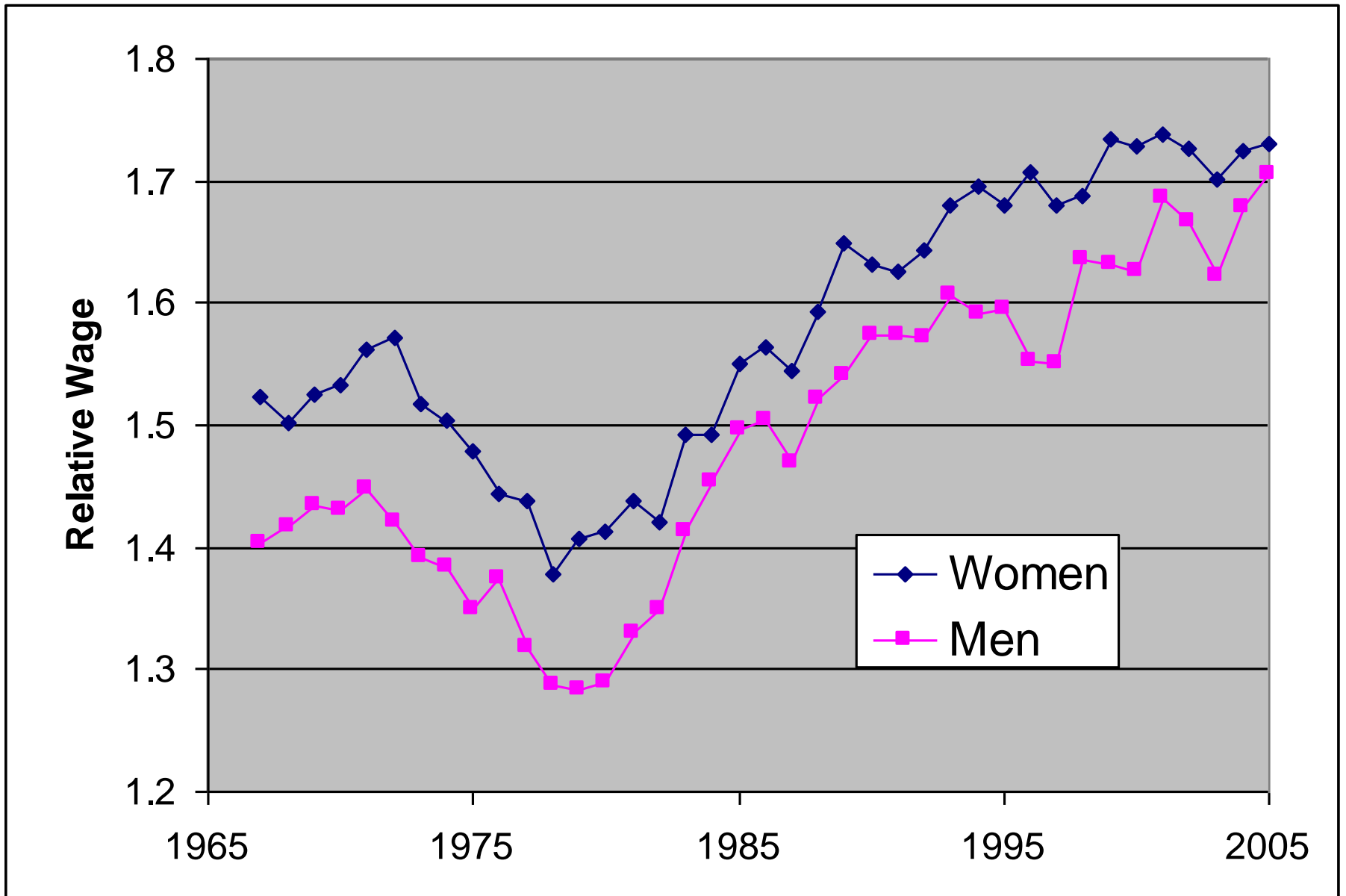
- Increases in the return to education and skills have revolutionized labor markets and society
- Increased human capital is essential for taking advantage of new technologies and innovations
- Technological changes have increased the value of education outside of the workplace as well

The Rising Importance of Education (Based on Becker & Murphy 2007)

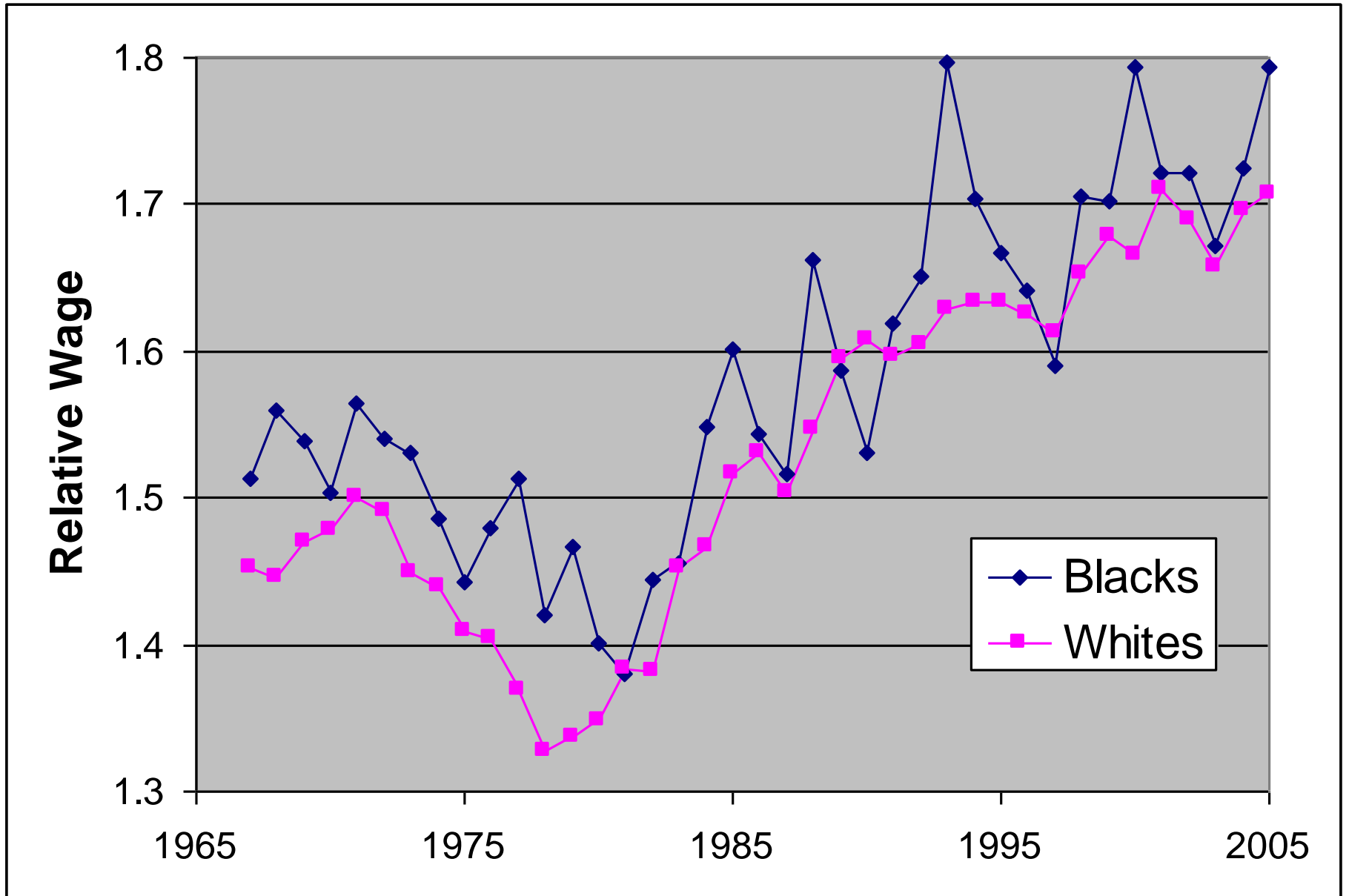
Education Wage Premiums



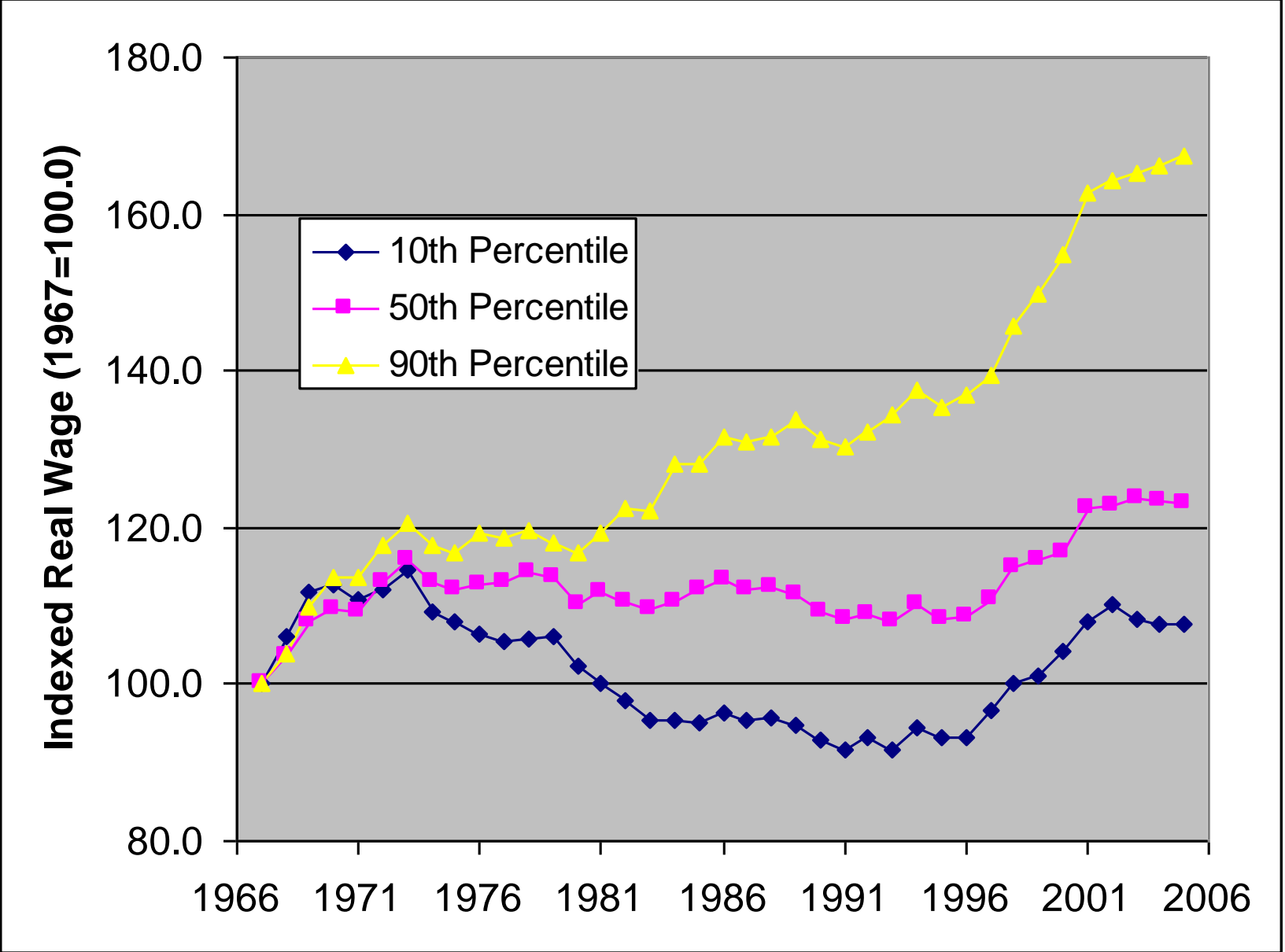
Education Premiums by Gender



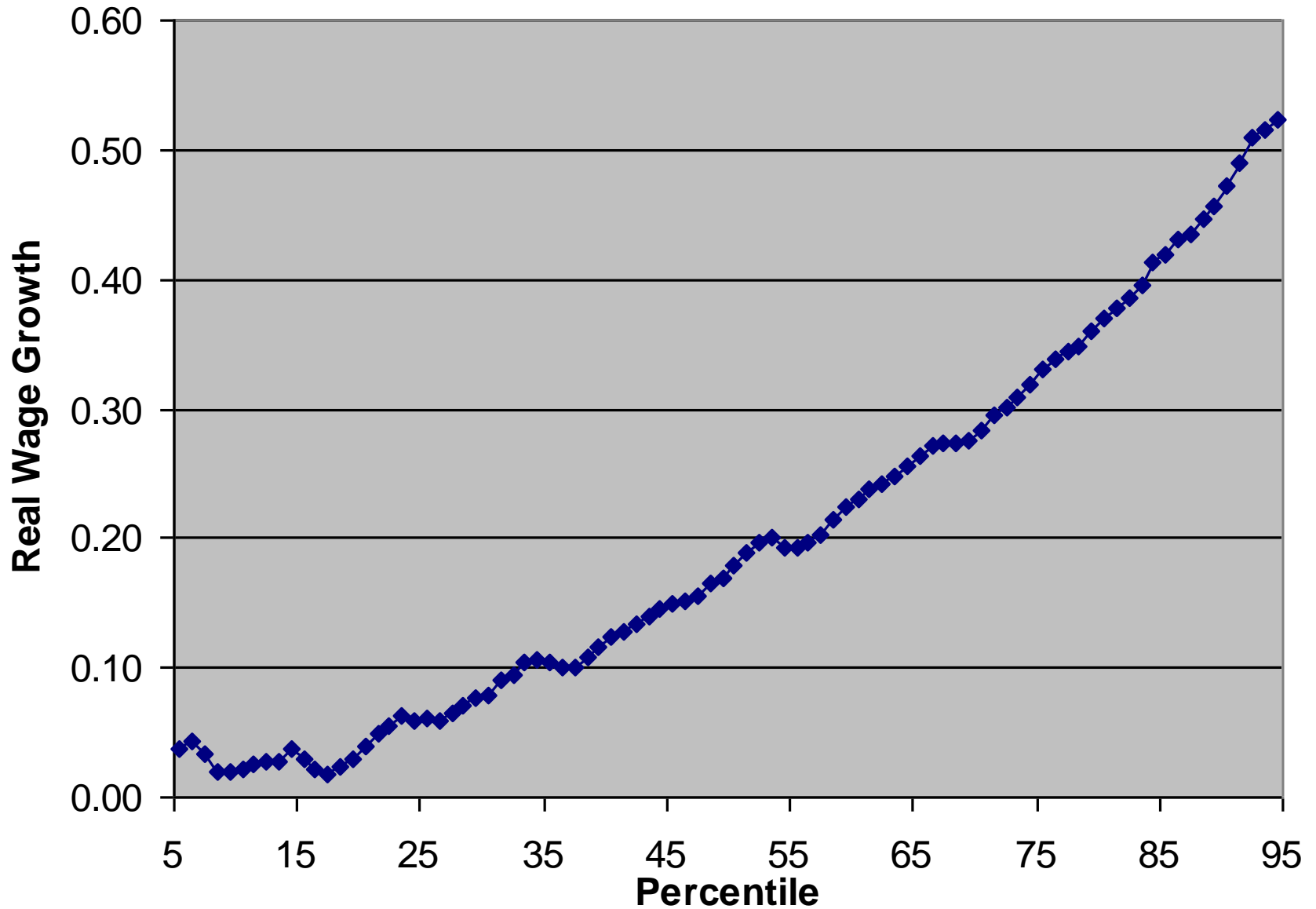
Education Premiums by Race



Overall Rise in Wage Inequality for Men



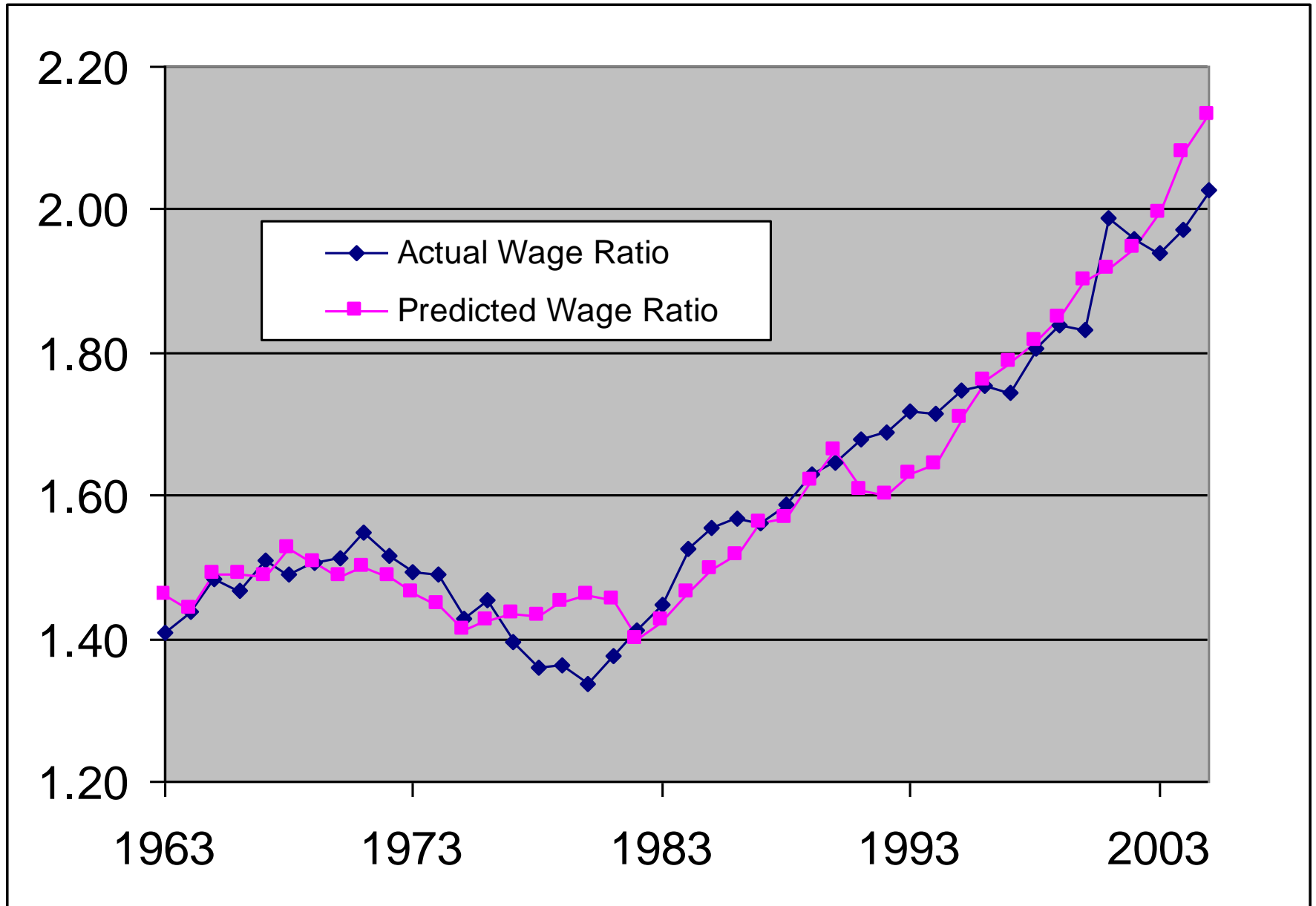
Wage Growth by Percentile 1968-2004



Explaining Changes In Education Returns Using Supply & Demand

- Growth in the college premium can be explained by a very simple model
- Model based on Katz-Murphy 1992
- The model:
 - Demand grows steadily over time driven by technical change and new capital investment
 - Fluctuations in supply cause education premiums to fluctuate
 - Supply grows faster than demand → premium falls
 - Demand grows faster than supply → premium rises

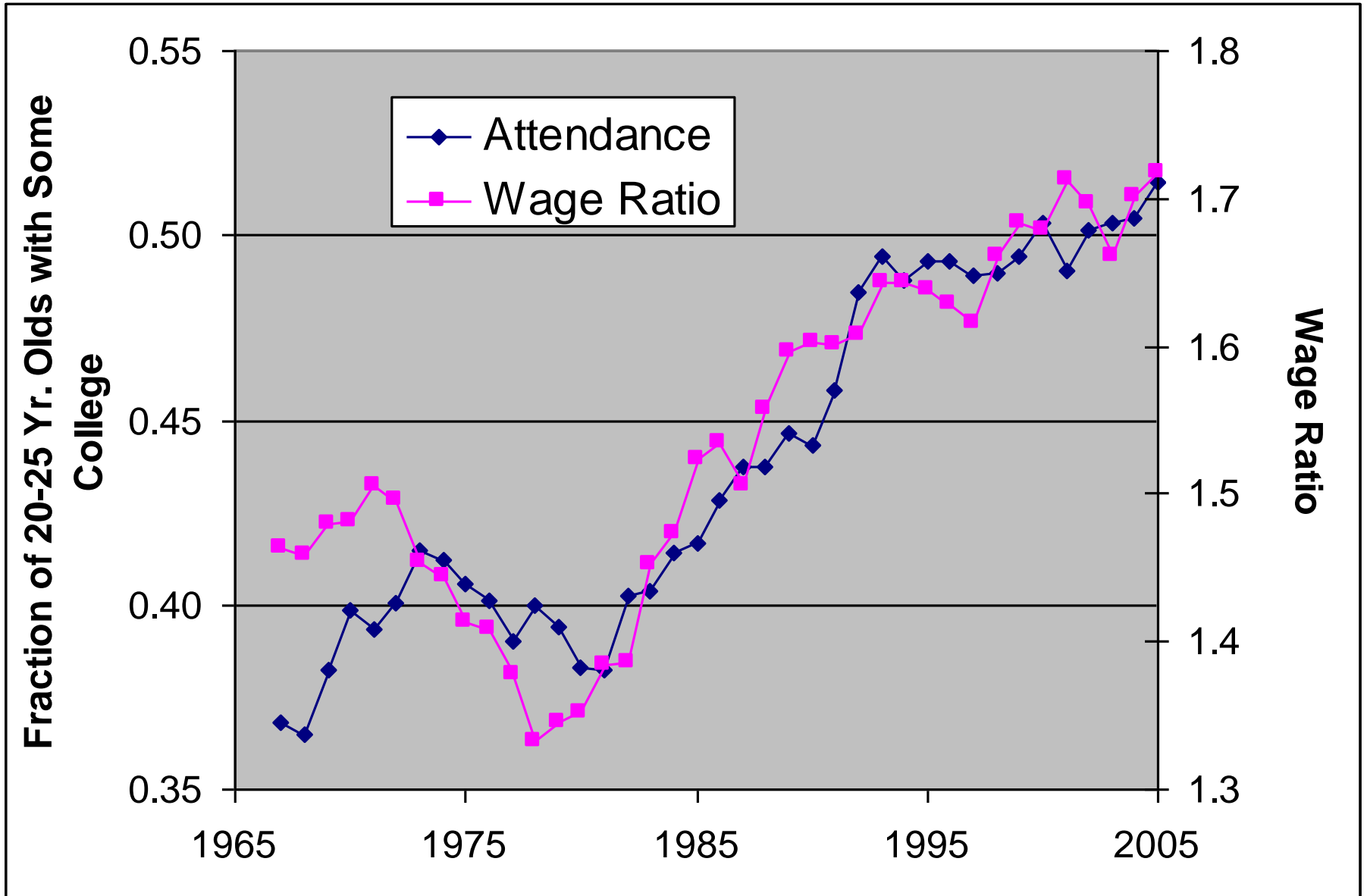
Supply Growth & Relative Wages



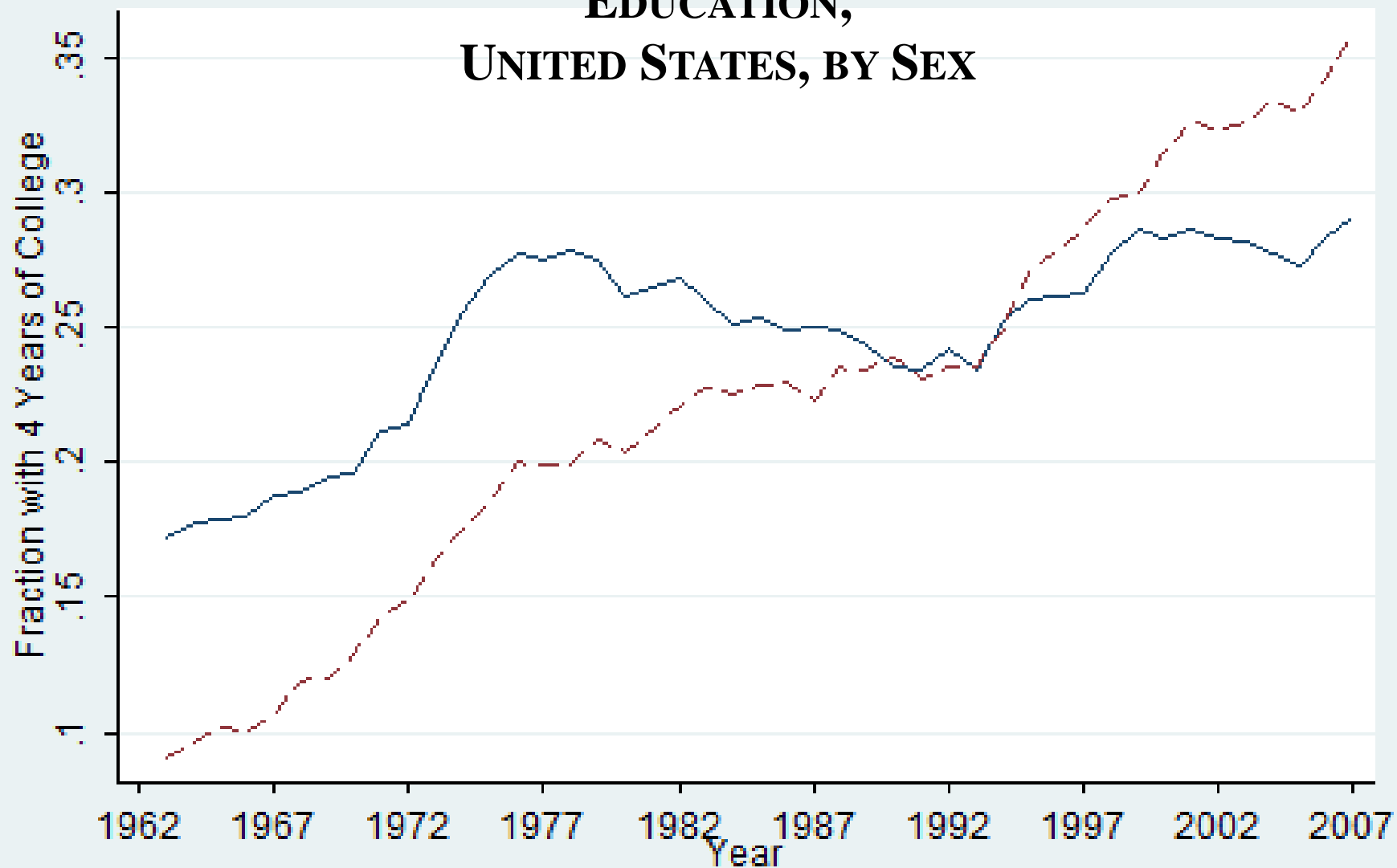
The Supply Response

- Growth in the college premium has generated a predictable response – more people have gone on to college
- But many students (particularly men) are poorly prepared for college

Wage Ratios & College Enrollment



FRACTION OF 30- TO 34-YEAR-OLDS WITH COLLEGE EDUCATION, UNITED STATES, BY SEX



— Men - - - - Women