Investing in People

The Human Capital Needs of Rural America

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Human Capital in Rural America: A Review of Theoretical Perspectives

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Over the course of the last three decades, the social sciences literature has given a significant amount of attention to the set of factors that might prove important in explaining why some people are better able than others to command the knowledge and skills needed to participant actively in the labor force. Why is it that rural areas consistently do more poorly than urban areas on educational attainment, earned wages, and employment status of its populace? Are rural residents more likely to possess certain individual or family characteristics that predispose them to a life of economic hardships vis a vis their urban counterparts? Or, are the forces that constrain the economic well-being of rural people less a matter of their human resource attributes and more a matter of a broader set of structural characteristics associated with rural areas that effectively condition the type of economic success people residing in these localities are likely to enjoy over the long term? These are but a sampling of the difficult questions that social scientists have devoted their energies to over the past several years.

As a product of these efforts, a significant number of theoretical frameworks have been advanced. Some have been focused principally on the characteristics that individuals bring to the marketplace, the so-called supply side of the equation. Others, on the other hand, have given attention to the demand side—the set of social structural factors that affect the type of jobs available in local areas (Granovetter 1981). Our intent, in this chapter, is to offer a brief overview of these conceptual models, particularly those that are incorporated in one or more of the chapters contained in this volume. While not attempting to be all inclusive, the hope in this chapter

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training, serve to enhance his/her human capital stock (i.e., the cognitive skills, knowledge, and experiences that one possesses). With this improved stock, it is purported that the person's productivity is enhanced. Because earnings are closely tied to productivity, an individual with greater human capital is expected to be more productive and, as a result, garner higher earning than a person with less human capital.

While Figure 1.1 offers a conceptualization of human capital theory, the ability of human capital theorists to fully subject these purported causal relationships to empirical scrutiny has been lacking. Marshall and Briggs (1989) suggest a number of reasons why this is so. For one, data needed to directly test the theory are limited. As an example, **Path A** in Figure 1.1 indicates that educational investments improve one's knowledge, skills, and experiences. A commonly used measure of educational investment embraced by human capital theorists is years of schooling completed (McCrackin 1984). Years of schooling reflects a measure of the quantity of time that a person has spent in school, but says nothing about the quality of the education that a person may have received while in school. It could be argued that the knowledge, skills, and experiences that one acquires is as much a product of the quality of the education received as it is the duration of time spent in school. But, educational quality is not a concept that is easily measurable. Similarly, links between variables represented in **Paths B** and **C** require access to sound information on worker productivity, data that are very difficult to secure.

Because of various measurement problems and the difficulty associated with acquiring data on many of the key elements incorporated in their model, human capital theorists have had to rely heavily on indirect examinations of their thesis. In essence, relationships implied in **Paths A, B,** and **C** have gone virtually untested and have had to be inferred by human capital proponents. Consequently, relationships denoted in **Path D** have been the central focus of most empirical analyses that they have conducted (Marshall and Briggs 1989). The general flavor of these studies is that human capital investments are positively associated with individuals' work-related earnings (Becker 1975: Mincer 1974: Schultz 1961).

While human capital theory has garnered its share of supporters, it has been the subject of much criticism. Concerns have tended to develop along two major lines: (1) the relative inattention given as to why some persons are better able than others to invest in their human capital; and (2) the simplistic linkage that human capital theorists contend exist between investments and work-related earnings. We briefly turn to the first of these lines of criticisms.

Human capital theory assumes that individuals rationally decide whether or not to invest in their human capital after undergoing careful analysis of the expected costs of, and future returns from, such investments

ment strategies. In so doing, he articulates the integral role that rural schools can perform in this development process. Vogel and Coward (Chapter 13) provide a comparative analysis of the health care conditions, resources, and use patterns existing between metro and nonmetro area residents. Also outlined are the important contributions that the rural health care sector provides to the economic vitality of rural communities. The chapter prepared by Wenk and Hardesty (Chapter 14) gives focus to the influences of family and household characteristics on educational success of young adults. They find that structural attributes of the family/household have a profound impact on educational attainment. They suggest that an effective mechanism for increasing human educational resources is to attend to difficulties created by family and household circumstances. Stallmann, Mwachofi, Flora, and Johnson (Chapter 15) contend that local labor markets create incentives for human capital investment. Drawing from data collected in Virginia, the authors find that the mix of jobs found in local labor markets has an important impact on the human capital investment decisions of individuals. They encourage rural communities to pursue economic development efforts that are designed to increase the demand for highly skilled labor. In Chapter 16, Luloff and Swanson note that no matter what the socioeconomic assets (or weaknesses) of a community, its ability to effectively mobilize these resources depends on the presence of "community agency"—the capacity of local residents to work in concert in addressing local needs. They underscore the importance of finding strategies to remove barriers to the effective emergence of community agency. The concluding chapter (Chapter 17), prepared by the editors of this volume, offers a synthesis of key points and policy suggestions that have been presented by chapter authors. The intent is to articulate those strategies that might help bring improvement to the social and economic well-being of rural communities and their residents.

Notes

1. Becker (1962) asserts that general on-the-job training improves workers' knowledge and skills that can be applied not only to their current positions, but to jobs in other firms. Because general training enhances workers' competitive stance in the marketplace, it is rare for employers to pay the costs of general training activities since they may not be able to fully capture the returns on such investments. Specific training, on the other hand, provides workers with skills that are relevant only to their present employer. Consequently, firms employing such workers are more inclined to bear the costs of such training.

2. As Marshall and Briggs (1989: 180) state, human capital investments consist of direct and indirect costs. Direct expenditures represent out-of-pocket costs, such as tuition and fees, that individuals must pay to attend college. Indirect costs are

Family and Community as Contributors to Human Capital Development

One of the significant criticisms advanced against human capital theorists, as noted earlier, is their tendency to be insensitive to forces beyond the individual that may impinge on his/her capacity to invest in himself/herself (McCrackin 1984). It has been suggested, for example, that individuals' abilities and levels of schooling are significantly shaped by important family characteristics (Rumberger 1983). The line of thought that best exemplifies this perspective is the work conducted under the banner of status attainment research (see for example, Blau and Duncan (1967) and Sewell et al. (1969)). This well developed theoretical framework contends that a family's socioeconomic status (SES) plays a substantial role in shaping a persons's success in school and in influencing his/her early occupational choices. In essence, SES serves to condition the environment of support for aspirations and achievement in that individuals from higher SES families are more often socialized to place a high value on educational achievement (Blau and Duncan 1967; Smith 1993; Wagenaar 1987).

The clear message from the social status research is that a family's location within the social stratification system represents a dominant factor in models of educational/occupational attainment, and in the earnings that one garners once in the marketplace (Blau and Duncan 1967; Granovetter 1981; Smith 1993). Findings emerging from this research have been subjected to several replications and the outcomes of such efforts have reaffirmed the significant role of family SES in explaining educational and occupational aspirations and attainment (Campbell 1983).

Extending Status Attainment Research

An important variation and expansion of the status attainment research is proffered in works by James S. Coleman and his associates (for example, Coleman 1990; Coleman and Hoffer 1987; Coleman et al. 1982). Coleman (1988b) concurs that family background plays a central role in the academic success and aspirations of children, as noted in the status attainment literature. He argues, however, that the influence of family background can be actually disaggregated into three important components; families provide *financial capital, human capital,* and *social capital* to their children. *Financial capital* constitutes the wealth and income which the family possesses, resources that can facilitate the child's access to activities that might enhance achievement. The notion of *human capital* represents the educational level of the parents, a measure that offers some clue of the cognitive environment to which the child might be exposed and which might contribute to learning. *Social capital* reflects the nature of the relations that exist

movement into the kind of "good jobs" that are commonplace in the primary labor market (Rumberger 1981)

As with dual economy advocates, dual labor market proponents assert that human capital investments are likely to pay higher dividends to those persons gaining access to and advancing within internal labor markets (Marshall and Briggs 1989). Returns to education and training are significantly lower for those employed in the secondary sector given the "dead end" nature of these jobs (Falk and Lyson 1988).

Concluding Comments and Overview of This Volume

This chapter has presented a series of paradigms that offer a roadmap of how one might want to proceed in examining the complex set of human resources issues impacting rural America. Our primary intent has been to provide a theoretical context for several of the chapters that follow. While no attempt has been made to give full treatment to the frameworks considered, our hope has been to present a fair and accurate snapshot of these key theoretical perspectives.

The following chapters present a comprehensive examination of one of the overarching issues that is likely to influence the face of rural America as it approaches the 21st century—the quality and capacity of its human capital resources. Chapters are organized thematically into four major sections:

Part One: From Concept to Reality

In addition to the theoretical groundwork presented in this first chapter, this section provides an overview of existing human resource conditions in rural America (by Killian and Beaulieu). These authors explore whether a mismatch exists in the supply of and demand for qualified workers in rural areas. They conclude that one of the serious problems existing in rural America today is the failure to create good jobs that effectively utilize the existing human capital resources of the locality.

Part Two: Forces Shaping the Future of Rural America

A central aspect of this section is to give focus to key economic, social, and technological changes that are likely to shape the future viability of rural areas. Pulver (Chapter 3) examines the major structural shifts taking place in the U.S. and global economies and outlines how these changes are likely to impact the long-term economic health of the rural U.S. In Chapter 4, Wilkinson contends that rural communities are being confronted by a host of social problems and issues that are likely to go unresolved unless a strengthening of the community can be realized. Such strengthening re-

are valuable in that they help situate "individual level correlates within a larger context, thereby showing how individual decisions can be affected substantially by social structure."

But, achievement and aspirations are influenced by more than the structural characteristics of a community. Coleman suggests that communities can help youth be successful in school by investing in relationships with them through the process of interpersonal interaction. He finds, for example, that children from single-parent families are more like their two-parent counterparts in both achievement and in continuation in school when the schools are in communities with extensive social capital (Coleman 1991: 10). Social capital at the community level exists in the norms, social networks, and interactions between adults and children that serve to facilitate or support educational attainment. It is represented by the genuine concern and interest that adult members of the community have in the activities of another person's child. Signs of its presence include the enforcement of norms deemed important to the family or community, adults providing a listening ear to youngsters experiencing problems which they are hesitant to discuss with their parents, monitoring of students' activities by non-family adult members of the community, and providing a variety of community sponsored programs for youth that can serve to provide them with positive, productive environments for using their time and energy (Coleman et al. 1987).

Figure 1.2 attempts to bring synthesis to the set of pre-existing factors that weigh heavily on a person's human capital investment decisions and future employment-related opportunities and earnings. It suggests that family attributes, viewed in terms of the financial, human, and social capital endowments present in the home, have a potent impact on a person's

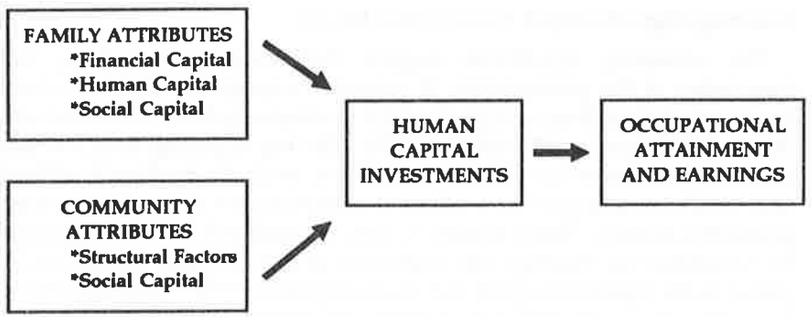

FIGURE 1.2. Factors Influencing the Human Capital Investment Activities of Individuals.

TABLE 1.1. Distinguishing Elements of the Core and Periphery Economic Sectors (Bluestone et al. 1973: Horan et al. 1980).

CORE SECTOR	*PERIPHERY SECTOR*
Oligopolistic Capitalism	Competitive Capitalism
* Economic activities are concentrated	* Low amount of economic concentration
* Small number of firms	* Intensive market competition
* Significant market power in products and labor markets	* Limited capacity to exercise market power in products or labor markets
Large-scale firms	Small-sized firms
Diversified products	Limited product line
High profits	Low profits
Capital-intensive	Labor intensive
High productivity	Poor productivity
Well-developed internal labor markets	Minimal internal labor markets
Significant presence of unionization	Lack of unionization
High-level of job skills required	Low job skill requirements
Excellent wages and working conditions	Low wages and poor-working environment
High investment in on-the-job training	Minimal on-the-job training
Low turnover in workers	High worker turnover

attributes that he or she may possess, and more to do with the economic sector in which he or she is employed. That is, rates of return to human capital are inclined to be much greater in firms situated in the core than in the periphery sectors of the economy (Kalleberg et al. 1981: Tolbert et al. 1980).

Dual Labor Markets Perspective

A conceptual framework that closely parallels the dual economy thesis is that of segmented (dual) labor markets. Dual labor market theorists are principally concerned with segmentation existing in labor markets and are less interested in the historical bases of such segmentation, as is the case with dual economy proponents (Tolbert et al. 1980). An underlying difference between these two approaches is that one focuses on segmentation among firms (i.e., dual economy) and the other on segmentation associated with jobs (i.e., dual labor markets).

The central thesis of dual labor market advocates is that jobs are situated in primary and secondary labor markets (Doeringer and Piore 1971; Piore

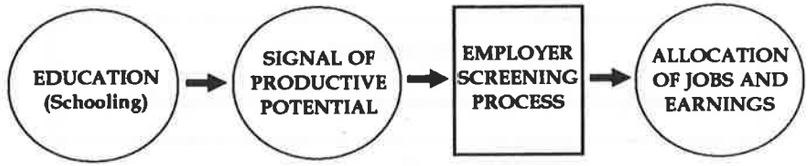

FIGURE 1.3. The Screening Hypothesis Framework.

human capital theory, however, is that "screening" advocates do not contend that education intrinsically enhances an individual's productivity (as do human capital theorists). Rather, schooling simply "certifies that those who have successfully completed a given level (of education) possess certain qualities (skills, ability or family background) that should be rewarded" (Goodman 1979: 270). Education, then, is used by employees to identify pre-existing differences in talents among potential employees (Layard and Psacharopoulos 1974).

A simple diagram of the screening hypothesis is offered in Figure 1.3. It shows that one of the key elements of this thesis is the existence of a filtering mechanism that operates for the purpose of efficiently allocating workers to jobs where they have the greatest comparative advantage (McCrackin 1984). Earnings received by workers is viewed as an outgrowth of the allocative (or screening) process carried out by the employer.

Closely aligned to the screening hypothesis is a framework introduced by Thurow (1975) under the rubric of "job competition model." This perspective suggests that there is an array of job opportunities that exists in the labor market and attached to these job positions are certain wages (Sakamoto 1988). These jobs are ranked on the basis of their desirability, from best to worst. Better jobs have attractive training ladders associated with them, while less desirable positions are accompanied by limited training slots (see Figure 1.4).

Workers' access to these jobs is dependent upon their location in the labor queue. The ranking of individuals in this queue is based upon the costs associated with training them to perform activities attached to different jobs in the economy. Persons who are expected to require the lowest training costs are ranked at the top of the labor queue, while individuals with the highest training costs are placed at the low end of the job queue. Background characteristics of potential employees serve as the key ingredients in ranking workers on the basis of their expected training costs. Educational attainment and performance are viewed as the most critical of