

Investment in Human Capital Development: A Critical Analysis of Schultz's Thesis on Investment in Man

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Abstract

This article takes a critical look at the issue of investment in human capital development. In so doing, it examines the link between greater investment in human capital development and the insurance of societal transformation, technological advancement, economic growth and sustainable development of the State. It does this through the prism of the propositions of one of the foremost and strongest advocates of investment in human capital development; viz, Theodore Schultz. In this way, it not only acknowledges the importance and linkages between investment in human capital development and economic growth and emancipation but also critically examines the nuances and salient questions that may arise in applying to the letter the call to invest in human capital development. To this effect, it offers suggestions on how these issues may be effectively engaged and curtailed for maximum accretion of the far reaching benefits of meaningful investment in human capital development.

Introduction

There is in the recent times growing interest in and call for investment in human capital development. Unusually honed interests in and calls for investments in human capital development are emerging from quarters where they were seldom the case. This posture in this stead appears to be about the same in Nigeria where with the advent of the current administration renewed interest in human capital development has sprung significantly. More and more attention is apparently being paid to the issue of human capital improvement and growth. The phrase; human capital development, is becoming the buzzword in government circles and receiving heightened usage and allusion. Public pronouncement on the issue of human capital development is on the increase. The allusion to and the seeming appreciation of the critical role of human capital development to societal transformation and the undeniable need to massively and copiously invest in it are fast taking the front burner in many economic fora and discussion platforms. As such, indications are rife that there is growing awareness and expanded recognition of the critical importance of the value of human capital improvement and development amongst the wider spectrum of the Nigerian society. Many are already pointing to it as the inalienable fillip Nigeria needs, hitherto neglected, to launching the Nigerian state amongst economically strong and respected and technologically advanced states in the world.

But in talking about human capital investment and development what should be referenced or be borne in mind? It is worthy of note that not all investments in human capital development deliver desired results. Some of such investment, for their unhelpfulness can just transmute into a conduit pipe of leakage and wastage. Similarly, there are arising issues with

human capital investment that if not given the appropriate attention, consideration and possible resolution could significantly hamper and impede the glowing outcomes of human capital investment and development. This is the reason why investment in human capital development cannot be done for the sake of doing so or be engaged indiscreetly or indiscriminately. Better still, investment in human capital purely informed by the mere fact that it is known to be a potent factor to true societal transformation without any alignment consideration for propriety and suitability can be counterproductive. It is the potential danger that an unreflective involvement in human capital development could engender that proper diagnosis for the appropriate and most profitable human capital investment is viewed as critical and as important as the investment itself.

Besides, just as it is somewhat difficult if not impossible to measure the exact magnitude of the benefits of human capital investment so also the question of the ownership of the outcomes of human capital investment is an issue. Even though, it is well documented that investment in human capital could not only have strong impact on the a country's economy but also far reaching multiplier effect, it is, however, not clear what volume of human capital investment can generate what value of a country's transformational outcomes. This development poses a problem for an unguided and unreflective rush for massive investment in human capital. While investing in human capital development can be so praiseworthy and laudable, not doing the right investment or investing in the wrong or incongruent human capital, however, could just be as inane and detrimental as not investing in it at all.

It is against this backdrop that this paper takes an analytic trip to Theodore Schultz, the very originator and broacher of the idea of the importance of investing in man, developing the human capital. In this way, the paper shall take a critical look at his groundbreaking thesis "Investment in Man" with a view to unveiling his organizing ideas on investment in human capital development and eliciting the tenets therein for guidance and direction for proper selection and productive investment in human capital. In so doing, the paper shall first outline Schultz's articulation of investment in man. This done, it shall examine some of the critical issues that his thesis would raise today, make some comments about them especially in the light of their implications on education and human development vis a vis present day societal organization, then conclude with some suggestions.

Investment in Man

Theodore Schultz is one of the founding fathers of the contemporary idea of human capital development. He is a foremost leader and fervid advocate of the idea. He made his groundbreaking thesis in 1959 with the publication of his *Investment in man or Investment in human capital*. In this thesis, he posits that the human being is a wealth that could be augmented for investment for relatively higher returns on incomes. He argues that by investing in themselves, people can enlarge the range of choices available to them and open up room for higher incomes and greater wealth. The human person or his/her abilities are a reproducible capital, which has enormous economic value. He notes that the key to economic growth and

sustenance lies in substantially proportional investment in human capital, which in significant part means *adequate investment in health and education*. He submits that education improves human capacity, dexterity and knowledge that positively affects the quality of the work done and the speed by which it is done. According to him, the differentials in earnings correspond closely to corresponding differentials in education, “the one is a consequence of the other” (p. 4). Health for him means greater life expectancy strength and stamina, vigor and vitality to accomplish assigned task (p. 9). So, for Schultz, two key areas are critical in human capital investment. These for him are education and healthcare. In his submission, real investment in these sectors provides a country the tools for opening the doors of economic transformation, growth and sustainability.

Schultz decries the hesitation of economists to come to grips with this form of investment. He conjectures that deep seated moral and philosophical values and ensuing issues of human freedom and the reduction of human dignity to the level of mere material component might explain the reasons for the reticence. On the contrary, he argues that “there is nothing in the concept of human wealth contrary to the idea that it exists only for the advantage of people” (Schultz, 1961, p. 1). He explains that “failure to treat human resources explicitly as a form of capital, as a produced means of production, or as a product of investment, has fostered the retention of the classical notion of labor as a capital to do manual work requiring little knowledge and skills...”(Schultz, 1961, p. 3).

This classical idea of labor, in his view, has since become obsolete. He maintains that, “laborers have become capitalists not from a diffusion of ownership of corporation stocks...but from the acquisition of knowledge and skills that have economic values” (Schultz, 1961, p. 3). In this way, he calls for investment in knowledge and skills which are a great product of capital investment. This investment combines with other investment in physical capital predominantly explains the productive superiority of the technologically advanced world, he avers. The absence of this kind of investment in the poorer developing countries and the lack of incentive from the developed world to spur it (capital investment) accounts for their backwardness. Thus, he links the unexplained post World War II rapid economic growth in the United States to investment in human capital.

Furthermore, he observes that some difficulty exists in estimating the exact scope and magnitude of human capital investment relative to investment in physical capital goods. He notes that it is particularly cumbersome to estimate the income forgone by students. To minimize the occurrence of this experience, he recommends an alternative method to estimating human capital. That is, focusing on estimating the yield rather than the cost of human capital, adding that insights into the measurement of investment in human capital can be gained by examining the more important activities that improve human capabilities. He identifies five; (1) investment in health services and facilities, (2) on-the-job training, (3) engaging in formally organized education at the elementary, secondary and higher education levels, (4) participating in study

programs for adults that are not organized by firms, including extension programs, notably in agriculture and (5) migration of individual and families to adjust to changing job opportunities (Schultz, 1961, pp. 7-8).

He concludes his thesis with the following comments, (a) that tax laws everywhere discriminate against human capital by failing to appreciate that human capital like other forms of reproducible capital depreciates, could become sterile and so requires continued maintenance, (b) that human capital deteriorates when it is idle because unemployment impairs the skills that workers have acquired, for appropriate payments do not migrate the effects of idleness. Thus the concept of *all capital investment*, human and nonhuman must be pursued, (c) that racial and religious segregation, discrimination by professional association governmental bodies are still widespread, just as creating hindrances for free choice of profession still persists. That, this keeps investment in human capital substantially lower than its optimum (d) that there has been imbalance in support from the capital market on investment in human capital relative to nonhuman capital, (e) that internal migration requires substantial investments, (f) that attention should be concentrated on the cause than the effect. The causes of low earnings and poverty among minority groups and indigenous migrating farmers, he identifies, converge in the failure to invest in their education and health, (g) that there should be proportionally balanced investments in all forms of skills and human knowledge, (h) that the question of who the returns from public investment in human capital accrue, poses an issue, (i) that it is simply not possible for the underdeveloped countries to have the fruit of modern agriculture and industry without making large investments in human capital.

In sum, for Schultz, there cannot be meaningful economic growth and development without proportionally substantial investments in human capital relative to investment in physical and nonhuman capital. Thus, adequate and equal attention free from all discriminations and imbalance should be given to all capital investment. This posture to capital investment in his opinion creates the endearing atmosphere for rapid and sustainable economic growth for any country in the world.

Facts from Schultz Thesis

There are few salient and consistently time relevant facts that can be safely extrapolated from Schultz's thesis. These include: *First*, the novel recognition Schultz gives to the pivotal and the non-negotiable role of the human person in the wealth and economic growth of a country. There is no gainsaying in the fact that the human person has been and continues to be the greatest asset of any company or country (Nierman, 1993). Despite the attempt informed by the continued industrialization of the world to usurp or replace man in the operations of institutions and the management of societies the indispensability of man's role and place has continued to remain undeniable and nonnegotiable. Further, Schultz's thesis underscores the uncommon knowledge and understanding of the grave economic implication of human capital.

Secondly, he essentially places the acquisition and enhancement of knowledge and skills in a formally organized education. In this way, declaring education as a critical and indispensable agent/catalyst for rapid economic growth and development. This affirms the age-old and still undeniable strong correlation between education and a country's economic growth and development (Savvides & Stengos, 2009, Wof, 2003; Ayisi, et al., 2009). *Thirdly*, it is evident and prominently accounted for in his thesis the fact that the essential difference between technologically advanced countries in the world and the underdeveloped ones lies largely on their appreciation of the significance of investing in education and healthcare. In this submission, he unequivocally pinpoints the inalienable place and role of knowledge, skills and greater life expectancy to meaningful economic growth and stability (Becker, 1994; Collins 2001; Wall, 2008).

Issues and Implications from Schultz's Thesis

A number of issues stem from Schultz's thesis on human capital development. First, there is no doubt that investment in formal education for the acquisition and enhancement of skills and knowledge is central to Schultz's thesis of human capital investment. But the critical issue that this generates is, on the one hand, determining the specific skills and knowledge that are most appropriate and desired to spur and sustain meaningful economic growth. On the other, it raises the issue of finding or creating the most appropriate educational system that informs and bestirs a country's economic growth and effectively and efficiently supplies for it. It has been observed that two forms of formal education exist; viz: *expressive and instrumental* (Schlechthy, 2005). While the expressive form of education tends to focus on maintaining the values and beliefs of a given institution/cultural system, the instrumental is geared towards acquiring skills and techniques to respond to pressing daily human challenges and needs. In their development and configuration, these forms of formal education system are directed to focus on and serve totally different needs. In which case whichever form of the formal education system that is chosen must be so selected to be serve the pressing need of an environment and as such its selection must be informed by the specific need of that environment. What this then implies is that for an investment in a given form of education system, so selected in a given place, to be a meaningful and productive investment venture in human capital development that would appreciably inform economic growth and societal transformation of that place the form of education chosen and invested in must be informed and shaped by the pressing need of that place or environment.

Now, if the form of education that is given in an environment/country is purely expressive instead of instrumental, where the instrumental form of education is, for instance, the most appropriate and pragmatic in that environment, then the knowledge and skills acquired would not only be contextually unsuitable but also most likely ineffective and unproductive. A development of this kind can make the investment effort in such education futile and the education provided of little or no economic value. For the reason of its incongruence and impropriety to dealing with the challenges that confront the people, that form of education would not only be misplaced but also ineffective as instrument of growth and transformation. In the

face of this possibility, the question then may not just be about investment in education for the acquisition of and enhancement of skills and knowledge but also investing in education that is most relevant and appropriate, effective and productive. To this extent, it would seem the appreciation of this emerging issue is as critical as the need to invest in the human capital through education. Implying then that the stakeholders in the project of education for the acquisition of human skills and knowledge that Schultz advocates must not just be satisfied with investment in human capital through education but must also ensure that what is being invested in is carefully assessed for its usefulness and propriety.

Secondly, the question of the most appropriate way to invest in the human capital especially in the light of prevailing societal provisions and exigencies comes also to mind. One of the postures to investment in the human capital that Schultz's strongly criticizes, a criticism I subscribe to, is the discrimination both on the part of the government and the capital market. In this posture, allocation of resources or subvention of funds from the fiscal wealth or financial resources available is disproportionately skewed against human capital development. This practice has in some cases been stretched to inform the formation of a system of operation where the obliteration or absence of equal access to investment resources for investment in human capital is the order of the day. Some argue however that the allocation of resources or subvention of funds that is often viewed to be disproportionately skewed against investment in human capital development should be vice versa. That is it should be skewed disproportionately in favor of investment in education and healthcare. This is what massive investment in human capital development that Schultz advocates would imply. But the question then is if so much of the lean available resources are directed towards human capital development how much would be left for the development of other sectors that the developed human capital would need to effectively operate.

Besides, another question that this call for massive investment in human capital could elicit is if we take education and healthcare as saliently meaningful investment in man, what system of investment plan would be adopted to ensure that the lean and declining government resources (King, et al., 2003) and the heavily sought after resources from the capital market are gainfully employed such that the principles of equity, accessibility and availability (Cooper, 2009; King et al., 2003) are truly respected and every possible discrimination, exclusion, and unjustifiable denials that Schultz decries are prevented. It raises the question also of what exactly the available resources should be directed at in investing in human capital development. Are the resources to be directed at building the facilities and infrastructure that would create the environment for the reception of meaningful healthcare service and acquisition of desired knowledge and skills (since it is difficult to measure exactly the magnitude of the outcomes of investing in human capital) or something else? Further, what would be the possible most efficient criteria of accessibility to available resources in the instance insufficient resources to meaningfully provide for the healthcare and educational needs of a country's population? These are critical questions that the call to invest in human capital by Schultz could generate.

Thirdly, the issue of ownership of the benefits/outcomes of capital investment arises from the engagement of Schultz' thesis. Schultz advocates the same or at best similar commitment of investment should be given to human capital development as given to the nonhuman capital. In view of this, the argument of who should be the owner of the yields of investment in human capital becomes a tricky issue. People make their resources available for investment in view of making profits (Moran, Graham & Blomstrtom, 2005; Davenport, 1999). In the case of human capital investment especially in the area of education and healthcare, the first beneficiary of the investment is the person on whom the investment is made and not the investor. The question then is can the private investor, which investment incentive is largely profit accretion, gainfully invest in human capital without obscuring the ultimate purpose of doing so, that is, enhancement of the individual invested in and improvement of the social and economic structure? Besides, if investment in human capital was to be solely government responsibility as Wagner et al. (2003), would loosely imagine, the issue of what extent government's control and ownership over its yields can go, would also arise.

Fourthly, the issue of *competitive and comparative advantage* (Hall & Soskice, 2001; Wall, 2008) also comes to mind. Creating and sustaining competitive and comparative advantage is more of an issue today than it was in the past with the advent of globalization and computer digitalization that is making the world more or less a small global village (Friedman, 2005). A situation wherein traditional sources of competitive and comparative advantage, such as, relatively lesser cost and comparative easier means of achieving the generation of a product are fast becoming impossible to maintain (Wall, 2008), the continued value of comparative advantage as the previously held strong determinant of what and where to produce what and when is called to serious question. In the face of this development, nonetheless, the call by Schultz to invest in human capital with a view to pursuing excellence and distinct capabilities in people and organizations stands out very plausible and recommending. This implies that for great institutions to remain great or for good ones to become great (Collins, 2001) the posture would not just be focusing on the "golden eggs but more importantly maintaining the health of the goose" (Wall, 2008, p. 5) that produces the golden eggs.

This means that for institutions to remain marketable and competitive in the global terrain where new techniques and/or products can easily be matched with or reproduced from any part of the globe within a short period of time, finding the right leadership, what Collins (2001) calls the *Level 5 leadership* or what Senge (2006) calls the *sixth sense* that makes the difference is imperative. This obviously resides in the distinctive human talent and ability that Bourndreau & Ramstead (2007) argue if invested in by means of education yields the most distinctive outcomes in the midst of very close competitors. Schultz implicitly weaves this understanding into his thesis when he observed that the distinctive character of the developed world from the underdeveloped world lies in the differences in their investment in human talent/ability. The incorporation of this understanding by Schultz in his thesis of investment in human capital, gives credence to the fact of his unparalleled foresight, indicating that he was ahead of his time on this

issue. Besides, this proposition of his has the immediate implication for our schools as institutions faced with the stiff competitions from other schools around the world. It presupposes that to maintain our standard and sterling performance we must rather invest more in human capital in the form of not only recruiting and inducting (Schlechy, 2009) the best and the brightest in our faculty and staff, but also ensuring that they are up to date and distinctive in their awareness and application of the newest and most effective means and methods of learning available.

Comments

Schultz's thesis on aggressive investment in human capital is a groundbreaking contribution to human knowledge. Although much time has elapsed since he made his propositions and submissions, his thoughts and opinions on human capital development remains, however, consistently time relevant and will continue to stand useful and appealing for many years to come. This is because the question of investment in the human person; his talents and capabilities, is an all time relevant one. His submissions are particularly striking and contextually interesting because they identify and affirm the essential character and inalienability of the human component to any meaningful business or economic venture. Also, the reproducible or augmentable character of the human capital that he identifies calls to mind the need to appreciate the elasticity of the human capacity and how much can be done to invest in it and stretch it to its fuller and greater potential. That is, finding out how much may be done to bestir it to realize higher returns in the face of existing and emerging challenges. These two observations implicit in Schultz's submissions bring out clearly the importance and value of education as an instrument of empowerment, and healthcare the fundamental of any meaningful growth, as critical tools for stimulating, sustaining, endowing and improving this capacity.

While Schultz's thesis cannot be safely disputed for its attractiveness and enduring relevance, the application of some of the pieces of his thesis, however, could be nuanced by diversity in environmental provisions and the changing world order (Fullan, 2007). Thus, it may not be out of place to suggest that to fully appreciate and truly hone the excellent frames of Schultz's propositions, care must be taken to ensure that the investment in man and invariably in human capital development is done with clear understanding of the effects and implications of existing conditions that could negatively impact or blur its effective and meaningful implementation. Nevertheless, his thesis remains an undeniable piece of contribution to human knowledge and further understanding of the economic and financial structure of a country. As such, its recommendations will continue to stay strong and relevant for their strength, usefulness, universal application and profundity.

Conclusion

This piece has attempted to present the thoughts and submissions of Theodore Schultz on investment in human capital, wherein he informs that the human talent or ability can be safely seen and engaged as wealth or reproducible capital worthy of investment in as any other

nonhuman capital for profitable yields and for economic growth and development. It observed that while the contents of his thesis are very rich and largely indisputable for their clarity and salience, care must be taken not do blanket application of them without taking into consideration prevailing environmental and cultural nuances and emerging societal and global realities that could impact their effectiveness and meaning. The position of this paper has been, nonetheless, that the submissions of Schultz on this issue of optimum investment in human capital are not only meaningful and attractive but also carefully thought-through and in depth with universal application and relevance.

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