Education

THE RISE AND FALL OF HUMAN CAPITAL THEORY

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During the late 1950s and early 1960s, with many countries experiencing a large increase in school enrolments, combined with strong levels of economic growth, attention began to focus on the new and emerging discipline of educational planning. For example, at an OECD conference at the Hague in 1959, it was suggested that a positive correlation existed between qualified manpower and economic growth, so that expenditure on education had, therefore, to be viewed as an investment. Many people began to assume that human capital was the key to national economic growth. Even the former Soviet Union jumped on the bandwagon, claiming that much of their recent research had simply reinforced Strumilin's findings from 1929, which concluded that government expenditure to raise the cultural level of the country ought to be considered equal to expenditures on technical capital projects in terms of their importance to the economy.

In his acceptance speech after winning the Nobel Prize in Economics in 1992, Gary Becker stated that while the concept of human capital was no longer controversial, this was not the case in the 1950s and 1960s when it was viewed as demeaning because it treated people like machines. As Becker suggests, '[t]o approach schooling as an investment rather than a cultural experience was considered unfeeling and extremely narrow'. However, with the benefit of hindsight, these criticisms were somewhat of a red herring as they helped to divert attention away from the much more important questions concerning the difference between public and private investment. For example, according to Becker, education and training are the most important investments in human capital and studies have shown that, after taking other factors into account, school and college education will significantly increase a person's income. Becker also appears to be proud of the fact that the accumulating evidence of the economic benefits of schooling are now influencing the political process and has been encouraging politicians to take some positive action. But is Becker suggesting that any investment (public or private) in education should be welcomed as a positive development?

Whether it was Becker's intention or not, this is how human capital theory has been interpreted by international agencies and governments across the developing world who have proceeded to spend billions of dollars on nationalising their primary and secondary education sectors. When a free government school is opened next door to a fee-charging private school, one will inevitably crowd out the other. As a result, the profit motive, entrepreneurship, competition and private investment in education will all be gradually crowded out, leaving a bureaucratic and inefficient government monopoly. Therefore, the basic problem with human capital theory is that it fails to make a distinction between government investment and private investment.

While it may be tempting to claim that some government investment in education must be better than none, this incorrectly implies that without government intervention, investment in education would cease to exist. This clearly is not the case as we now know that government investment will crowd out private investment, thereby restricting the total level of investment in education. Therefore, the choice is not between government investment and no investment but between government investment and private investment. The fact that they are both defined as an investment is perhaps misleading as there are some fundamental differences between the two. While government investment is organised through central planning, private investment is organised by individual planning. The key difference between the two concerns the amount of detailed and very specific local knowledge which each planning process is capable of using. In 1989 Gary Becker stated that, 'all in all I believe the case is overwhelming that investments in human capital are one of the most effective ways to raise the poor to decent levels of income and health'. However, I disagree and instead believe that government investment in human capital is one of the least effective ways to raise the poor to decent levels of income and health, and is much more likely to prevent and pervert the growth of human capital than promote it.

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