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Human Capital Theory and Education

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Throughout Western countries, education has recently been retheorized under Human Capital Theory as primarily an economic device. Human Capital Theory is the most influential economic theory of Western education, setting the framework of government policies since the early 1960s. It is seen increasingly as a key determinant of economic performance. A key strategy in determining economic performance has been to employ a conception of individuals as human capital and various economic metaphors such as "technological change," "research," "innovation," "productivity," "education," and "competitiveness." Economic considerations per se in the past, however, have not determined education.

In *The Wealth of Nations* (1776) Adam Smith formulated the basis of what was later to become the science of human capital. Over the next two centuries two schools of thought can be distinguished. The first school of thought distinguished between the acquired capacities that were classified as capital and the human beings themselves, who were not. A second school of thought claimed that human beings themselves were capital. In modern Human Capital Theory all human behavior is based on the economic self-interest of individuals operating within freely competitive markets. Other forms of behavior are excluded or treated as distortions of the model.

A prominent explanation for that move is provided by a recent reformulation of Human Capital Theory which has stressed the significance of education and training as the key to participation in the new global economy. In one of its recent reports the OECD (1997a, p. 7), for example, claims that the radical changes to the public and private sectors of the economy introduced over recent years in response to globalization will be "severe and disturbing to many established values and procedures." In another report that explains internationalization in higher education as a component of globalization, the OECD (1997b, p. 11) believes that "internationalism should be seen as a preparation for twenty first century capitalism". (This form of capitalism is based on investment in financial markets rather than in the manufacturing of commodities, thus requiring dependence on electronic technology). That organization also boldly asserts that internationalism is "a means to improve the quality of education" (OECD 1997b, p. 8). In keeping with Human Capital Theory it has been argued that "the overall economic performance of the OECD countries is increasingly more directly based upon their knowledge stock and their learning capabilities" (Foray and Lundvall 1996, p. 21). Clearly, the OECD is attempting to produce a new role for education in terms of the human

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capital subject required in "globalised" institutions.

In terms of structural reform, under Human Capital Theory the basis for nation-state structural policy frameworks is the enhancement of *labor flexibility* through regulatory reform in the labor market, as well as raising skill levels by additional investment in education, training, and employment schemes, and immigration focused on attracting high-quality human capital.

Human Capital Theory has been criticized on a number of counts. Two critiques are outlined here: one external and one internal. The clearest statement of the deficiencies of human capital theory goes to the heart of neoclassical economics. The revival of economic sociology, in particular at the hands of Fred Block (1990, p. 21), seeks to challenge the basic assumptions motivating the methodology of neoclassical economics. He claims these rest on two basic building blocks. The first is the idea that the economy is an analytically separate realm of society that can be understood in terms of its own internal dynamics. Economists are perfectly aware that politics and culture influence economy, but they see these as exogenous factors that can be safely bracketed as one develops a framework that focuses on purely economic factors. The second key foundation is the assumption that individuals act rationally to maximize utilities. Here, again, economists are acutely aware that individuals are capable of acting irrationally or in pursuit of goals other than the maximization of utility, but the strategy of excluding these deviations from the rationality principle is justified by the effort to identify the core dynamics of an economy.

For Block (1990), these assumptions on which neoclassical, and therefore also, human capital theory depends are cast in universal and ahistorical terms. Given the facts that they emerged from a body of theory which was first formulated in the nineteenth century and that they continue to provide the basis for neoliberal restructuring of the state in the 1980s and 1990s within most western liberal democracies, it is, perhaps, time that these original assumptions were reexamined. Together the two assumptions provide a basis for the model of the self-regulating market which harmonizes transactions for products, labor, and capital.

Economic sociology challenges the first assumption by arguing that the society and culture can not be arbitrarily split from the economy. Clearly, both the society and culture shape the preferences of individuals in various ways. Social factors also influence economic contractual transactions. Even the contract rests on cultural understandings and the legal framework which is itself historically determined. The methodological foundations of neoclassical economics obscure the social, cultural, and political determinants of economic action. Marginson (1993, p. 25) argues that this results in an analysis that is ahistorical and, through a tautological procedure, continually rediscovers the centrality of purely economic notions. Based as it is on the false premise of the "naturalness" of the pursuit of economic gain by human inclinations, the "economic fallacy" imagines that capitalist societies do not have cultures in the way that primitive or premodern societies do. When we recognize that the pursuit of economic self-interest is itself a cultural creation, then it is apparent that we too are ruled by deeply held, but unexamined, collective beliefs.

Human capital theory, then, is an impoverished notion of capital. It is unable to understand human activity other than as the exchange of commodities and the notion of capital employed is purely a quantitative one. This misses the point that capital is an independent social force where the creation of social value comes about through its capital accumulation and continual transformation through the circulation of commodities. Under capitalism, labor is structurally separated from the means of production. Labor and the means of production are concentrated as commodities and capital in the hands of an opposing class. The means of production are not only physical but also appear in social relations. The individual under capitalism can only come to grips with the means of production through selling his or her labor commodity. The struggle of the laborer to improve life's conditions is mediated then through the social relations within which they find themselves. Given this explanation, human capital is an abstract form of labor – a commodity – and not capital. Commodities such as human capital are therefore part of the life cycle of capitalism as a form of labor and not able to be exchanged independently of it.

The second assumption exposed by Block (1990) which is of primary importance to human capital theory is also open to criticism on a variety of grounds. In modern human capital theory all human behavior is based on the economic self-interest of individuals operating within freely competitive markets. Other forms of behavior are excluded or treated as mere distortions of the model. Friedman (1962, pp. 100–101), for example, has argued that all the benefits of vocational and professional education are limited to the individual who is educated. The maximization of rational self-interest separate from the social group that the individual belongs is a central article of faith in human capital theory. A criticism of the rational utility maximizer (Block 1990, p. 25) suggests that the elevation of self-interest to a position of dominance on which much economic analysis rests is itself a consequence of social arrangements.

What constitutes rational action depends to some degree on the context which human capital theory denies with its individualistic methodology. From a poststructuralist perspective, Elster (1983) emphasizes the problematic nature of individual rationality that is behind any notion of self-interest. According to Elster (1983), under conditions of complexity and uncertainty, the gap between rationality in action and perfect rationality can be substantial.

Further criticism of human capital theory concerns a more technical problem with criticisms about the employment of the theory as a means of accounting for national economic growth. Arguments about economic growth accounting such as Becker's (1994) show at best that education contributes to differences in earnings between people and then only in certain circumstances. This criticism comes from Blaug (1987a, p. 233), who contends, "it has to be said that the models so far examined in the growth accounting literature fail utterly to explain the mechanism by which this effect is produced." The contention that economic growth emanates from education is a non sequitur because, while it may be granted that education contributes to growth, so do many other activities. Blaug (1987a, p. 231) says that what must be illustrated is "not that education contributes to growth, but that more education would contribute more to growth at the margin than more health, more housing, more roads, etc."

The fundamental thing that growth accounting ignores is the costs of the resources already invested in the educational system and therefore the calculations tell us nothing about the net returns of spending on education. In this respect, Blaug (1987b, p. 134) argues that "public expenditure on tertiary education depends not only on the costs of instruction but also on the volume of direct aid to students." Blaug (1987b, p. 135) further notes that the "levels of public spending on student aid can encourage or discourage the private demand for tertiary education but *cannot* directly affect levels of economic development or rates of growth of GNP per head." Even within economic discourse, "investing" in education does not necessarily bring equity. Nevertheless, the commitment of Western governments to education policies of economic growth through human capital development is increasingly funded through private debt in the form of student loans.

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