Essay: Human Capital Theory

Patricia Martinez

OMDE 606: Costs and Economics of Distance Education

University of Maryland University College
This essay will examine whether higher education contributes to a stronger economy which benefits society. Does earning a higher education contribute significantly to the economy? This essay will look into the economic contribution education provides for society and the individual. The essay will define Human Capital Theory (HCT), and consider its strengths and weaknesses.

**What is Human Capital Theory?**

Human capital theory, proposed in 1961 by Theodore Schultz, focuses on the idea that acquired knowledge obtained by a worker makes him or her more productive, which in turn raises the workers’ income and earnings over their lifetime (Becker, 1994). This positively benefits society through economical measures. There are clear advantages and disadvantages to this theory. By investing in humans through education his or her skills will grow, as will their confidence, happiness, which will benefit and increase productivity in the work-place. There are also disadvantages such as lowered productivity due to comparing oneself to someone earning more with the same experience, little guarantee there will be a return on investment which is significant, and the thought behind humans as capital is not positively received by many.

Theodore W. Schultz’s (1961) seeks to explain the human capital theory by identifying a direct relationship between productivity and human capital, to include a workers’ earnings in their lifetime (Schultz, 1961).

**Strengths of Human Capital Theory**

Strengths noted from Schultz’s article include people being viewed as an important component to societal and economical wealth, investing in individuals benefits their well-being, the businesses well-being, and strengthens society’s economy. Without investments made in
individuals by the government and businesses, people may not have the opportunities to grow and better themselves. The beneficial investments include career training, higher education opportunities, and health benefits, all of which contribute to the well-being of the individual and their families. Schultz (1961) makes the point that without investments in human capital we would be left with only hard physical labor and high levels of poverty (p. 16).

The growth in our economy is reliant on the work and advancement of individuals, and in turn, individuals benefit from the contributions made for them and made by themselves.

The other equally important strength of human capital theory is the benefits that human capital provides to the well-being of the individuals. By investing in the health of society’s people through government health resources such as Medic-aid, and through covering health benefits, individuals can be healthy and work longer. to the society as a whole. A healthy society gives people a chance to live longer and enjoy the fruits of their labor. Many businesses now have wellness clubs and centers for their employees and include gym memberships because when an employee feels healthy they put forth more energy. Finally, they also feel tied into the company and cared for making them want to invest their efforts for a greater good outside of themselves. There is also a global effort to be heather and easy access to everyone through social media, which makes people a part of more than just their community, but part of a global environment.

According to Schultz, “economists have long known that people are an important part of the wealth of nation.” (p. 2). This author would also like to think that in today’s world, we are part of a global economy. Human capital connects the individuals efforts to the organization they work for, which connects to the economy. When the economy is strong then everyone benefits
from the profits made. The other benefit is their well-being and good feeling on positively contributing to the society they live in. However, being viewed as an object of productivity has its negative connotations.

**Weaknesses of Human Capital Theory**

In reading Schultz’s article “Investment in Human Capital,” some weaknesses in the theory were noted. Some major weaknesses include the view of human beings as objects of productivity, not viewing all people equally, and the assumption that education increases productivity. I have noted some weaknesses. Schultz states “The mere thought of investment in human beings is offensive to some among us. Our values and beliefs inhibit us from looking upon human beings as capital goods, except in slavery, and this we abhor” (p. 2). Referring to individuals as capital is the same as referring to them as property, as in the days of slavery, to own and force to produce for own monetary gain. This is not what the country stands for anymore. Shultz (1961) remarks that referring to humans as capital pulls a man’s view of self to an object of property, which is unnecessary and counterproductive to equal human rights for all people.

The second weakness noted from Shultz’s article targets gender, race, and class discrimination. Members of society have the right to be viewed and treated equally by being given fair and equal opportunities. Unfortunately, many studies and circumstances show that discrimination still exists today. Woman make less than men for the same jobs, corporations skip over names that sound too ethnic, people over the age of 40 have a tougher time finding a job, and society fails to invest in the poorest people. Schultz (1961) states, “No small part of the low earnings of many Negroes, Puerto Ricans, Mexican nationals, indigenous migratory farm
workers, poor farm people and some of our older workers, reflects the failure to have invested in their health and education. Past mistakes are, of course, bygones, but for the sake of the next generation we can will afford to continue making the same mistakes over again” (p. 14). The past mistakes he mentions continue to affect generations today, which makes it important to invest in youth and prepare them with the tools needed to have the same opportunities as their peers.

The last weakness noted from the article is the assumption that education will increase productivity and increase wages. How much truth lies in the assumption? The idea of return in investment is questionable. There are many variables to add to this notion:

- What industry in the worker in?
- Are salary scales set by government or unions?
- What happens during an budget crisis when salaries are frozen? After the crisis is over, does the company help their employees “catch up” to cost of living increases?

These are just some questions and variables that make the theory colorful and not so black and white, some that may effect return on investment ideas. Today, many educated, talented, and hard-working individuals find themselves unemployed or working jobs they are over-qualified for. This is loss of investment, not to mention all of the adult learners who have returned to school in hopes for a better career.

**Conclusion**

In conclusion, Schultz’s interpretation of the human capital theory provided an easy to follow explanation of all the components which are important to this theory. As Schultz states, “investment in human capital accounts for most of the impressive rise in real earnings per worker” (p. 1). The rise in earnings is the return for investing in a higher education allowing
individual workers opportunities for growth, as well as contributing to the state of the economy. Although human capital theory has its weaknesses one cannot ignore the benefits this concept provides to workers and society. He also states that “although it is obvious that people acquire useful skills and knowledge, it is not obvious that these skills and knowledge are a form of capital,”(p. 1) and this is where the weakness in the theory lies, in my opinion, we can tie one end but not the other. Humans viewed as capital is a bit barbaric and although an educated person may earn more than a non-educated person, it does not mean that in the long run they both can not contribute the same amount to the economy. Higher education in the U.S. is very costly and with a weak economy many resort to costly loans, making it tougher to see the return on investment soon. Whereas, the skilled worker with no post education keeps his earning and grows in his field.
References


