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## **Part 1: An Exploration of the Human Capital Theory**

The human capital theory suggests that spending on training and education is an expense, and therefore should be considered an investment since it is undertaken with an outlook to mounting personal revenue (Becker, 1993). This proposition has been both supported and disputed by experts in the field of economics. This essay will define human capital theory, comment on the main tenets of the theory, challenge its doctrine, and discuss arguments in favor of education beyond possible economic benefits.

### **Defining Human Capital Theory**

The economic affluence and execution of any organization rely on its people. Influencers affecting the enrichment of human proficiency and aptitude are more and more playing a part in the research of social and behavioral sciences. The term “human capital” signifies the investment individuals make in themselves to augment their financial status (Olaniyan & Okemakinde, 2008).

According to Olaniyan and Okemakinde (2008), human capital theory stresses how schooling fosters the competence of employees by enhancing the amount of information of “economically productive human capability which is a product of innate abilities and investment in human beings” (p. 158). Formal education is viewed as an industrious investment in human capital; human capital theory supporters have deemed this as equally important as physical capital. Additionally, Schultz (1961) also addresses the importance of education and specifically points to other significant activities that advance human competence:

Melissa Smith  
OMDE 606  
Assignment #1  
October 3, 2009

“(1) health facilities and services, broadly conceived to include all expenditures that affect the life expectancy, strength and stamina, and the vigor and vitality of a people; (2) on-the-job training, including old-style apprenticeship organized by firms; (3) formally organized education at the elementary, secondary, and higher levels; (4) study programs for adults that are not organized by firms, including extension programs notably in agriculture; (5) migration of individuals and families to adjust to changing job opportunities” (p. 9).

According to Olaniyan and Okemakinde (2008), the justification behind human capital investment is anchored in three points:

1. Transfer knowledge that has already been acquired by previous generations to the new generation
2. Teach the new generation how to use that knowledge to create new processes, methods and services
3. Encourage the development of new ideas, products, processes and methods through creativity

### **Challenging the Doctrine of Human Capital Theory**

Critics of the human capital theory point to the complexity of determining key concepts, including potential earnings and the fundamental concept of human capital itself. Some have pointed to the moral question of assigning a dollar value to a human being. Critics also argue that it is complicated to divide human capital investment from personal expenditure. Not all educational endeavors ensure a progression in efficiency as ascertained by employers. “Empirical studies have suggested that the proportion of

Melissa Smith  
OMDE 606  
Assignment #1  
October 3, 2009

unexplained variance is still high, and must be an attribute of the imperfect structure and functioning of the labor-market, rather than of the productivities of the individuals doing the work” (Marshall, 1998, para. 3); (Becker, 1993; Bowles & Gintis, 1975).

The theory of human capital imparts no basis of reproduction and conveys a deficient theory of production, one which pays no attention to the social relations of production in favor of technical relations. According to Bowles and Gintis (1975), this “accounts for the more serious shortcomings of the standard treatments of the demand for human capital by firms, the supply of human capital, and the interpretation of the theory's central analytical concept: the rate of return to human capital” (p. 75).

Additionally, Weiss (1995) discusses human capital versus signaling in the explanation of wages. He asserts that individuals will select an amount of education to "signal" their skill level and aptitude to employers. In turn, employers will seek out a specific amount of education in order to "screen" their workers. According to Weiss (1995), both signaling and screening provide the option to "sort" workers according to their hidden abilities. He focuses on the way in which “individuals are sorted according to a measure of ability that improves productivity across all jobs” (Weiss, 1995, p. 134).

Blaug (1976) also discusses how “human capital theory is silent” in describing the ways in which employers determine certain desirable attributes, which cannot possibly be known at the time of hiring. Given the complexity involved in precisely projecting the future abilities of job applicants, employers utilize scholastic credentials as a “screening device” to differentiate new workers in terms of capability, motivation, and possibly family origins, that is, in terms of personality rather than cognitive skills. Blaug (1976)

Melissa Smith  
OMDE 606  
Assignment #1  
October 3, 2009

asserts, “The contribution of education to economic growth is simply that of providing a selection device for employers and the way is not open to consider the question of whether formal schooling is indeed the most efficient selection mechanism that we could design for the purpose” (p. 846).

### **Arguments in Favor of Education**

There are many reasons why people get an education beyond the possible economic benefits. These can include personal, family, social or work-related reasons. For example, according to DeBell and Mulligan (2005), in 2002-2003, approximately 68.5 million people, age 16 and older in the United States, took training courses that were not part of a conventional scholastic curriculum for reasons related to their job or career, but not necessarily for an increase in pay. The research supports the idea that there has been an amplified demand for work related adult education, “resulting from changes in the labor market, technology, and management practices” (DeBell & Mulligan, 2005, p.1). There are many new burdens on workers, who are progressively expected to take on numerous tasks, cope with altering procedures, and use an extensive foundation of knowledge on the job. DeBell and Mulligan (2005) found that more than 90 percent of adults who took formal work-related courses in 2002-03 said they did so to sustain or advance their skills or specific knowledge they already had, while fewer than 20 percent took such courses to get a new job or to change their career. Among working adults, only about a fifth of the sample did so in order to get a promotion or pay raise.

Melissa Smith  
OMDE 606  
Assignment #1  
October 3, 2009

### **Conclusion**

As discussed earlier, the economic affluence and execution of any organization rely on its people. The human capital theory attempts to explain the relationship between investments in education and training and level of economic status. This essay has put forth a definition of human capital theory, challenged its doctrine, while discussing the reasons why individuals seek an education beyond possible economic benefits.

Melissa Smith  
OMDE 606  
Assignment #1  
October 3, 2009

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Melissa Smith  
OMDE 606  
Assignment #1  
October 3, 2009

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Melissa Smith  
 OMDE 606  
 Assignment #1  
 October 3, 2009

### Part 2: Expansion of Education

	1991	1999	2000	2001	2002	2003	2004	2005	2006
<b>Brazil - Developing Country</b>									
P_GER(M&F) Brazil	103.89	154.44	150.42	147.42	144.76	140.73	140.27	136.87	136.87
S_GER(M&F) Brazil	40.46	99.08	104.14	106.57	109.41	101.92	105.65	105.47	105.47
T_GER(M&F) Brazil	11.25	14.46	16.06	17.78	20.13	22.28	23.78	25.48	27.01
<b>South Africa - Country in Transition</b>									
P_GER(M&F) South Africa	109.38	115.76	108.22	107.21	107.28	106.6	105.54	105.54	105.54
S_GER(M&F) South Africa	69.25	88.53	85.74	87.58	89.64	91.65	94.7	97.45	99.93
T_GER(M&F) South Africa	12.35	14.27	14.35	14.44	14.59	15.29	15.68	15.35	15.41
<b>Australia - Industrialized Country</b>									
P_GER(M&F) Australia	108.24	100.31	101.02	101.39	102.6	102.9	103.55	104.1	104.84
S_GER(M&F) Australia	83.07	157.47	161.66	154.22	153.32	155.08	149.18	148.53	150.32
T_GER(M&F) Australia	38.95	65.39	65.57	66.83	76.48	74.26	72.36	72.57	72.7

**Note:**

P\_GER(M&F) = Primary Gross Enrollment Ratio (Male & Female)

S\_GER(M&F) = Secondary Gross Enrollment Ratio (Male & Female)

T\_GER(M&F) = Tertiary Gross Enrollment Ratio (Male & Female)

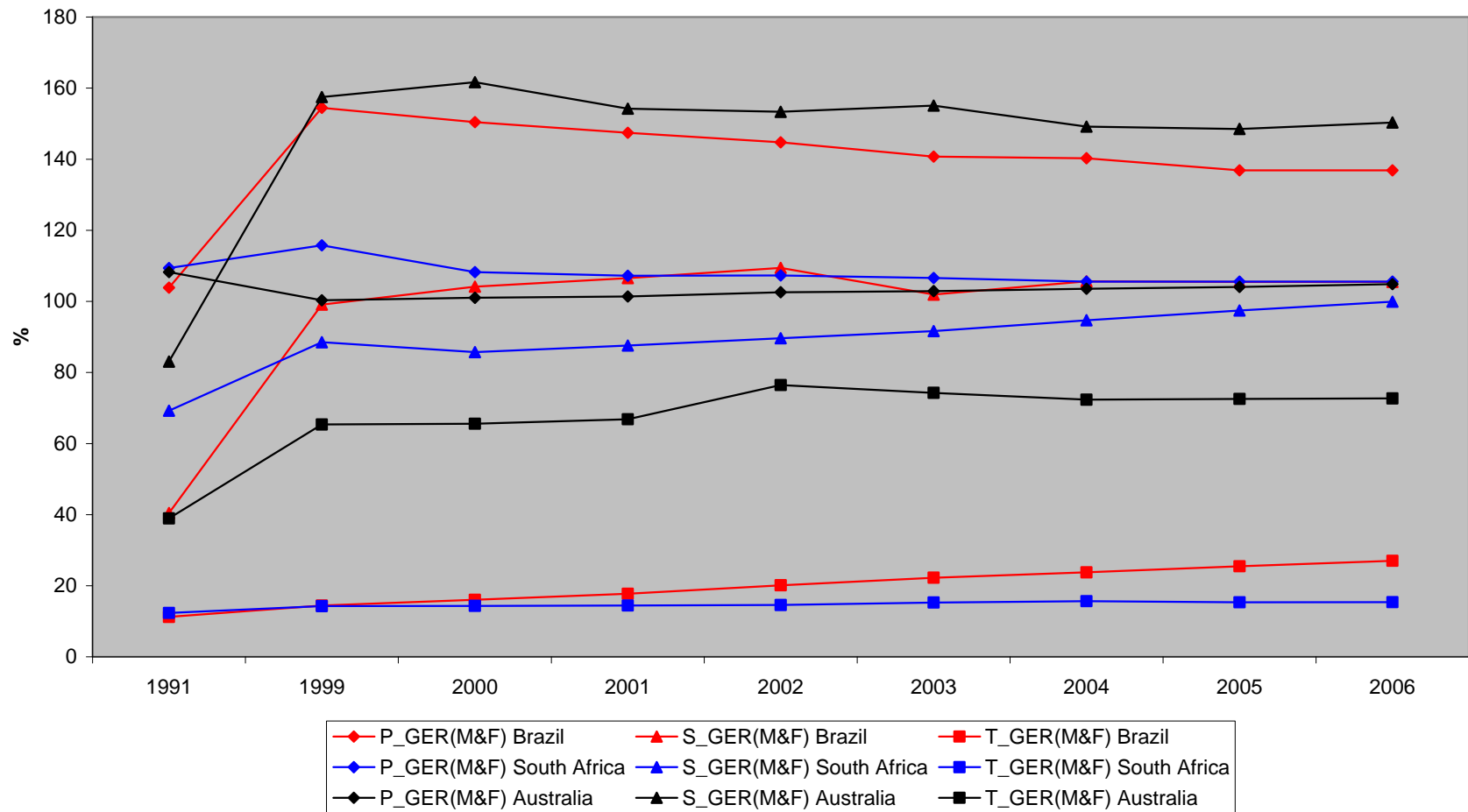
All figures come from GED (UNESCO data).

The yellow cells are extrapolated. In cases where the GER reached saturation, the latest reported figure is continued.



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 OMDE 606  
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### GER



Melissa Smith  
OMDE 606  
Assignment #1  
October 3, 2009

Observations:

- 1) All countries exceed 100% Primary GER.
- 2) All three countries experienced a huge upswing between 1991 and 1999 in Secondary GER. Australia outperforms the other countries in Tertiary GER.
- 3) While all the Tertiary GER data demonstrates a slight increase from 1991 through 2006, it still has the lowest figures among all three countries graphed.