ASSIGNMENT 1

Investment in Human Capital

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(ESSAY)

This essay will discuss components of an article written by T. Schultz, entitled Investment in Human Capital. Topics of discuss will include (i) a summary of the main point of the paper; (ii) strength and weaknesses of the paper; (iii) an a value stance.

**Summary of Main Points**

Schultz gives a strong account of a major shortfall within the economic system. The central focus of this paper is the relevance of investment in human capital for the growth of the economy. Schultz states that historically, economists have identified factors of human capital without acknowledging education as a crucial investment (Schultz, 1961). Mistakenly, consumption is not a part of the calculation. As a result, resources are not properly invested in human capital as it is with physical goods. Schultz stresses the inclusion of education as a human capital investment and the vital role the growth of education plays in the rise of earnings. He argues that education helps to increase individual income, and is accountable for economic growth (Schultz, 1961).

Furthermore, Schultz suggests that history confirms that differentials in earnings correspond closely to differentials in education (Schultz, 1961). Schultz concludes that education directly affects earning capabilities (Schultz, 1961). Additionally, he recognizes the effects of discriminatory practices on the economy. Schultz reflects on a history of discriminatory practices where education was not made available to particular people. This discrimination created a repetitive cycle of low earnings affecting the overall economic growth.

Ultimately Schultz concludes, the omission of crucial components of the total cost of education leads to the inaccuracy of the investment in human capital and the miscalculation of the returns to education.

**Strengths and Weaknesses**

A major strength of this article is the boldness and forthcoming of Schultz. He is willing to challenge mainstream perception, and is courageous enough to disclose the shortcomings of economists. Schultz candidly divulge that economist have neglected the very important fact that people make considerable invests in themselves (Schultz, 1961). Additionally, Schultz acknowledge the changes in statistics and the errors in former economic philosophy. He discloses new findings and their effects on economic growth. In particular, he disclosed the new data found to contradict the previous views on reproducible capital relative to land and labor; and revealed that data currently indicates less capital tends to be employed relative to income as economic growth proceeds (Schultz, 1961).

Furthermore, it is commendable that Schultz challenges the estimates of the capital-income ratios. He uncovers that they exclude human capital; although human capital has been increasing much more substantially than reproducible capital (Schultz, 1961). He is straightforward and proclaims the belief that there is a constant ratio between capital and income, and if we believe otherwise, we are participating in the ignorance. I find it commendable that he is resolute that the discrepancy is unacceptable for studying economics.

A final strength of this articles is that it acknowledges the discriminatory practices which contributed to the rising economy. The differential in earnings correspond closely to differential in education; and education is a capital investment (Schultz, 1961). As such, the Schultz recognize the low earning of minorities resulting from failure to invest in their health and education.

Regarding the weaknesses of the article, economics is not my strong suite. I had a very difficult time comprehending. As such, I am not in the position to point out any weaknesses other than some of the sentence structure was unfamiliar.

**Respective Value Stance**

Schultz is emphatic about the miscalculation of human capital. He notes the misclassification of consumptions and its effect on the total cost of education (thereby effecting the investment of human capital). He explains how education is directly associated with income; and the failure to invest in the health and education of minorities result in low earnings. However, I would have liked to further the conversation by discussing the impact of this disparity on the economy.

History serves many purposes. One important element is to teach the mistakes of the past in an effort to avoid making those same mistakes in our future. Secondly, to serve as a reminder of the accomplishments of our descendants. During my journey through public education, I was never taught the impact of the disparity placed on minorities on the economy. While reading this article, I couldn’t help but wonder whether the effects of the disparity of health and education for minorities had been hidden due to an agenda developed to justify a system based upon the debasement and economic exploitation of minorities.

I surmise that without the capital raised by the stolen labor of unwilling captives, and capital extracted through inhuman means, we would not have realize the economic growth of which America is so proud. Contrary to Schultz, I believe that this disparity is the most distinctive feature of the economic system.

In conclusion, the article was very insightful and gave me informative perspective of the investment in human capital and how it is formulated.

**Reference**

Schultz, T. W. (1961). Investment in Human Capital. *American Economic Review, 51*, 1-17.