

**THEODORE W. SCHULTZ, *INVESTING IN PEOPLE***

*University of Chicago Press, 1981*

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**Abstract**

*The article analyzes a book which synthesizes the prodigious work of one of the founders of the human capital theory. Destroying the fatalistic theories which see in the population growth and the destruction of natural resources causes of an inevitable catastrophe, the author offers a relative optimistic perspective regarding the evolution of the economic system, arguing that its source constituted the investment in education, health and other forms of human capital.*

**Key words** : education, human capital, investment, population, economic growth

The long history of the science seems to consecrate the rule according to which, in order to benefit from the hoped success, you must beware to think, innovate or write in the series of economic ideas since your writing is received as being raw, uninteresting and therefore impractical. Despite the fact that it takes care of the earthiest aspects of human nature, the economy does not enjoy the brightness of physics, chemistry or medicine. Otherwise we cannot explain the anonymity in which bright minds and works sink into, minds which had the lack of inspiration to lean on the science which treats the human behaviour in the in the circumstances of the resources' scarcity. We must admit that it is rather paradoxical that the world expects impatiently the appearance of the new Einstein's books, Stephen Hawking, about space, time, and universe in the conditions in which they claim there are less than 10 people in the world who understand his theories.

By comparison, we do not know an economist, whose work of art is treated with so much attention either in the academic world or on the large public. The exceptions of the century which has just ended could be only Keynes and M. Friedman; as for the rest, the brightest brains of the economic science and their creations deepen into discretion difficult to understand.

One of the works which belong to the unhappy rule is constituted by the one conceived by Theodore W. Schultz. Written and published during almost six decades, the work of the American economist rewarded with the Noble prize in 1979 (together with A. Lewis) presents all the attributes in order to consider it an excellent one. Above all, his writings (together with G. Becker's efforts) allowed the coagulation of the human capital theory (starting from the concepts of some thinkers such as A. Smith or A. Marshall). That is why the scientific effort of T. Schultz represents an original, pioneering approach, which gave the opportunity to model it (according to possibilities) through politics put into application by public authorities or private institutions. Secondly, "the intellectual production" of the professor from the Chicago University has a polyvalent character, not being concentrated exclusively on matters that refer to education, health, population; on the contrary, he reaches the human capital theory trying to discover the sources of development and economic

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increase. Moreover, the original approach is found in studies regarding the agriculture in the weakly developed countries.

Anyone who studies the economic phenomenon is constrained to treat, directly or indirectly, the problem of the rarity of resources. In the millenary effort to improve his condition, the man is confronted with the volume of means much below his wishes and expectations; in order to grow economically, the individual must always find solutions capable to defeat reason. In agreement with Schultz's ideas, the answer to the problem of economic growth is not constituted by the increase of the physical capital (as they believed until the 60s of the previous century), but the quality of population. In other words, the economic growth and development do not depend, primordially, on the extension of the production capacities but on the volume and efficacy of expenses with the improvement of working force, as a production factor. This conclusion constituted the fundamental thesis of the book analysed in the present pages, *Investing in People: The Economics of Population Quality*.

Since the beginning, we must mention the fact that the previewed volume proposes to draw the conclusions of several decades of work in the sphere of the scientific researches from the economic area. This is the reason why during the 150 pages we will not find subjects analysed in their entire depth, series of data supporting the very detailed claims and radiographies. In seven chapters, T. Schultz treats, one at a time, the problems of poverty, of the investment in the population quality, the issue of time value but also the distortions that appear in the process of schooling in the big cities and in research. The preoccupation of the American economist for the sphere of the human capital is declared a manifest even since the first pages. Trying to discover the causes of poverty and the means to eliminate this phenomenon, Schultz concludes that the state of underdevelopment does not have its origin in the rarity of the physical capital but in the insufficient volume of resources allocated to the increasing of the population quality and to the knowledge improvement. His approach obviously contrasts with the pessimistic visions of Malthus or Ricardo type which foresaw a sombre future for the economic system caused by the excessive growth of population and the objective limiting of the cultivable surfaces. Schultz contradicts D. Ricardo sustaining that it is not the extension of agricultural lands which matters in the process of economic growth but the human intelligence, capable to research, innovate and increase the earth capacity. In other words, against the rarity we can fight with the help of human energy and creativity. In the support of his claims, the American economist brings statistical arguments (rare in the book, the latter being, as I was saying previously, a synthesis volume) showing how, in a few decades, the cereal production per hectare of the United States increased spectacularly. Even since the first pages, we are shown that the theories of the classical economists had the tendency to overestimate the importance of the agricultural land in front of the working force quality. Another remarkable merit of T. Schultz consists in dismantling the Malthusian prejudices which considered the limiting of the economic growth by the alert rhythm of the population increase. The millenary fear of overpopulation, born in the Spartan thought and transferred into the contemporaneousness via Malthus, has proved to be unsustainable. While the economic system progresses, the fertility has the tendency to decrease since the growing value of time increases the opportunity cost of the children's raising which determines the general augmentation of the income (symptom of the economic advance) to be accompanied by a diminution of the birth rate, the parents changing their preferences, substituting the number of children with their quality. Practically, here is the origin of a very fashionable dictum in the 70s -80s of the last century, which claimed that the best instrument of the birth rate control is constituted by economic development.

All the hypotheses presented in *Investing in People* keep their validity if that change in preferences is produced, which determines the parents to substitute the quantity with the

quality of their own inheritors. The latter source, the vehicle of the economic progress advance, is represented by the good care of children, by investments in the general and professional schooling, by the acquisition and knowledge and the improvement of the health state, all these constituting investments in the *human capital*. Abandoning the fake shame of several economists before him, T. Schultz sees in the quality of population a rare resource whose acquisition supposes costs. Thus, the issue of the human capital is treated through the neoclassical logic of the incomes and marginal costs, logic encountered both at G. Becker (the incontestable leader of this school) and at his numerous disciples.

Expressed in another manner, the previous phrase tells us that the decision to invest in education, health and other forms of human capital is based on the marginal profit determined as a difference between the additional expenses and the derived supplementary benefits, fact which supposes that the investor is a rational economic agent to a great extent, "a calculating human agent". In the theory exposed, what is remarkable is the connection between different types of expenses made with the increase of the working force, more precisely, the connection established between the volume of resources allotted to education and the level of expenses with the health care. We know that education provides abilities, qualifications, knowledge, which increase the productivity but this happens when the exploitation period of the investments is prolonged. As a result, the active duration of life of the working force holder (more performant through the educational expenses) must be extended through supplementary funds allotted to the health care, the latter representing a stimulant for the first ones. Both types of expenses must be considered resources for investments and not for consume, since they encumber the current wealth with the purpose of increasing the future personal richness.

The explanations offered by T. Schultz belong to the logic of the liberal philosophy presented, from the perspective of the human capital theory both in Friedman (specialist in monetary studies but with attempts in the field as well) and in G. Becker. One of the fundamental ideas which pervade the present book is that the human capital production must be supplied with markets and, only as exception, with the governments. As a good liberal, the former professor from Chicago considers that the best way to provide education and medical care is the free competition between the private producers which pursue their own interest. As they have already claimed, the market must not exclude the government which can finance these fields without controlling or master them. From this point of view, Schultz resembles M. Friedman which in the beginning of the 60s recommended the voucher method of financing the educational expenses. But, even if the government provides funds, the effective "production" of education and medical care must remain the appanage of competitor private companies since the resources allotted to these fields can be much better spent than through the state monopole. Summarizing the concepts of the Nobel prize winner, we can say that he sees the source of the economic advance in the investment in human capital achieved through the competition and facilitated by the minimum of governmental intervention. The human potential, helped by the institutional arrangements capable to stimulate creativity, intelligence, effort, constitutes the adequate answer to the problem of resource rarity. The temperate optimism of the book gives us the right to such a conclusion.