Moral Implications of Human Capital Theory in the History of Economic Thought

Bridget Macaulay*

Every year, a panel of five German linguists selects a word or phrase to "unword." This is usually a recently popularized word that they believe is inappropriate or does not represent German ideals. In 2004, the Unword of the Year was *humankapital*, in English, *human capital* (Schlosser). In both languages, this term refers to the capital stock of a human being: intangibles such as abilities, health, knowledge, and personality traits that allow one to increase his or her income and contribute to the economy. The use of the term to signify the stock of human intangibles that contribute to one's productivity was normalized in the mid-twentieth century, but the idea has roots in English classical political economy, if not earlier. The choice for the Unword of the Year raises important questions regarding human capital theory: Does measuring a human being in monetary terms dehumanize the individual, and what is the implication of doing so? If so, has human capital theory always devalued the human person, or does the modern theory undermine Adam Smith's original intent for the place of humans in the economy?

Neoclassical human capital theory states that investment in human capital, such as education or health care, creates returns like any other form of capital, such as increased productivity and maximization of wealth. Gary Becker (1994), a neoclassical economist renowned for his foundational work on human capital theory, describes human capital investment as "activities that influence future real income through the imbedding of resources in people" (11). The notion, however, has been consistently criticized by scholars as inhumane. Putting people strictly in economic terms devalues the human and thus leads to socially harmful analysis and policy. To critics like Emrullah Tan (2014), "this instrumental understanding [of the person] based on the optimal allocation of scarce resources to alternative ends is rather dehumanizing" (434), supporting this view with philosopher Michel Foucault's argument that the way in which human capital theory extends economic analysis to all aspects of human life paints "human beings as a machine for the production of an income" (433), creating a misrepresentation of the person and human freedom. An analysis of literature discussing the history of human capital theory allows for an understanding of how it has evolved in the history of economic thought since Adam Smith's identification of people as the generators of wealth. Furthermore, the objections that have been raised regarding the ethics of the theory draw a contrast between Smith's view of human capital and those of prominent contributors to economic thought during the twentieth century. Luca Sandona and Uchechukwu Aladi are two scholars who are critical of the inadequacy of neoclassical human capital theory to do justice to the human person. Their article, "Broadening Neoclassical Human Capital Theory for the Attainment of Integral Human Development" (2013) argues that integral human development is driven by more than just human capital and material well-being.

The implications of human capital theory depend on one's motive when using it; improper applications of the theory result in a dehumanizing view of people in the economy. In this essay, I will compare Adam Smith's valuation of human beings in *An Inquiry into the Nature and Causes of the Wealth of Nations*, originally published in 1776, with Gary Becker's work on the human

* At the time of submission, Bridget Macaulay was a student in economics at the University of Dallas.

capital theory, published in the late twentieth century. Using Smith as a point of comparison, I will demonstrate the ways in which Becker's human capital theory often engages in analyses that are dehumanizing and in sharp contrast with Smith's view of the role of the person in the economy and society. The goal of my analysis is not to imply that theory should not evolve over time or that it should not deviate from Smith. Rather, it is to show that each author's treatment of the human person in capital theory leads to different outcomes. Smith's view of the person, and thus of human capital, leads to recommendations that improve quality of life, while the policy conclusions drawn from Becker's theory are more variable.

In "The Historical Roots of the Concept of Human Capital" (1966), B.F. Kiker demonstrates the significance of classical economic thought to the theory of human capital, despite its being formally conceptualized in the latter part of the twentieth century. Kiker seeks to identify when and by whom humans have been regarded as capital and what the motivations have been in doing so. He begins with William Petty's search to find the source of the power of the nation. In 1691, Petty was concerned with public finance and increasing England's power. He found that the money value of laborers played an integral role in this, making him one of the earliest economists to emphasize what came to be known as human capital. Although he identified the value of the laborer, Petty was not concerned with individual wellbeing; he was concerned only with the wealth of the state (Kiker, 482). In the following century, Adam Smith popularized the belief in the critical role of human skill in creating wealth but never specifically defined human capital. Later economists such as Jean Baptiste Say and John Stuart Mill agreed that human skill should be regarded as capital, but not the human being himself (486).

In general, however, those economists who most prominently developed human capital theory believed that humans should receive the same scientific treatment as conventional capital because of their importance in economic affairs. In the late nineteenth century, Theodor Wittsen exemplified this assertion when he worked to create a basis for claims for compensation from loss of life (Kiker, 483). Since Wittsen, human capital theory has continued to be applied in courts and on compensation boards evaluating cases of death and injury (483). Human capital theory has also been studied for the purpose of awakening the public to a need for life and health conservation. Kiker points to economists Edward A. Woods and Clarence B. Metzger, who argued in 1920 that the monetary value of the population is a country's greatest asset. Their hope was that if citizens understood the significance of human capital, they would behave in a way conducive to prolonging lives and increasing national wealth (491). Other motivators for the development of human capital theory in the history of economic thought include the desire to determine the economic effects of education, seek more equitable tax policies, and calculate the monetary cost of war.

Kiker also touches on the roots of several contentions regarding the idea of human capital. For example, in the nineteenth century, Nassau Senior expressed that the only difference between valuing a slave and valuing a free man is that the free man sells himself (Kiker, 488). Though Senior believed humans to be a form of capital, his claim is representative of persistent concerns regarding the use of human capital in economic analysis. While attempting to estimate the capital stock of France in 1900, Alfred de Foville found the notion of human capital to be dubious in that it could never possibly determine the value of people such as Isaac Newton or Joan of Arc (Kiker, 489). Doubts like these demonstrate why scholars continue to find the use of human capital to be morally questionable: to disregard the freedom or ingenuity of the individual seems to undermine the significance of the human person. Proponents of human capital theory, however, have responded to such criticisms. Kiker recounts how Leon Walras argued that practicality should be sought over properness (496). Johann H. Von Thunen believed that distaste for human capital theory comes from a lack of clarity surrounding the concept and that the freedom of man can still be preserved within the human capital framework when it is used to eliminate social injustices (487). By detailing the development of human capital theory along with some moral objections, Kiker argues that the analogy between humans and conventional capital cannot be ignored.

Scott R. Sweetland further contextualizes the development of human capital theory especially as it concerns practical applications such as education. In *Human Capital Theory: Foundation of a Field of Inquiry* (1996), he argues that human capital is tied intrinsically to the economics of education, and he aims to promote further thought about the intentions of those who utilize human capital theory. As Kiker demonstrates, one's intention or motivation when utilizing human capital is certainly relevant in determining whether its use is justified. Sweetland gives particular attention to Smith's development of the idea that humans create the wealth of the nation. In *Wealth of Nations,* Smith proposes that human effort leads to all wealth. Furthermore, Smith sets the foundation for human capital frameworks in two ways: by emphasizing the qualitative human inputs to labor and by explaining that abilities acquired through education are a real expense (Sweetland 1996, 343).

Sweetland then shifts his focus to the twentieth century origins of neoclassical human capital theory. Irving Fisher set the stage in 1906 when he relaxed the requirements in his definition of capital to include humans. Fisher argued that just because one cannot perfectly evaluate the monetary value of people does not mean that they are not a form of wealth, or that economists should not seek a solution to this question (344). Sweetland then describes several foundational studies that further demonstrate the variety of implications of measuring human capital. In 1958, Jacob Mincer utilized human capital to study inequality in personal income (345). Solomon Fabricant, in 1959, attempted to clarify why U.S. national output increased at a far greater rate than could be accounted for by traditional inputs, and this study further generated macroeconomic interest in human capital theory (346). Sweetland then examines the work of economists most commonly attributed with the development of human capital theory, Gary Becker and Theodore Schultz. Becker most prominently researched investment in education and the quality of higher education, while Schultz brought attention to economic growth due to human capital and was awarded the 1979 Nobel Prize in Economic Sciences for his work. Criticisms against the neoclassical economists noted by Sweetland include those made against the use of human capital on philosophical and moral grounds and on account of its exclusion of social valuations and quality of life attributes (348). Schultz, on the other hand, argued that empirical imperfections are unavoidable and that by recognizing these limitations, economists can work to develop solutions (348). The various methodologies and foundational studies that contributed to the conceptualization of human capital theory, as outlined by Sweetland, demonstrate how different uses of human capital have led to both advancements and dissent within the field of economics. Ultimately, Sweetland notes, human capital theory tends to add "useful information to that which is already known; it does not provide bottom line answers or solutions" (355).

Emrullah Tan describes various criticisms that have been made against human capital theory in "Human Capital Theory: A Holistic Criticism" (2014). Tan devotes a portion of his article to the most relevant moral objections against the theory. He asserts that three aspects of the neoclassical approach to human capital theory provoke controversy: its definition of the human being as utility-driven, its description of the human as *homo œconomicus*, and its prescriptive nature, that is, that humans are seen as governable and responding predictably to stimulus (Tan, 434). Whereas classical economists generally saw the laborer simply as a person of exchange who sells his labor power, human capital theory sees the individual as the enterprise. This shift, in which the human is no longer the object of supply and demand but now the economic subject, is significant in that it demands that no aspect of human life is exempt from economics (432). For example, a 1975 study noted by Tan treated religious behaviors as "afterlife investments" (432). The issue with *homo œconomicus*, or the wholly self-interested rational being, is that it implies an immoral person. This person seeks utility until met with economic constraints, meaning that he or she is not affected by moral constraints in any way. Thus, utility is not only a means, but also an end, and humans are seen as instrumental rather than teleological. The human person is diminished in that human capital theory equates human freedom to a simple choice between alternate goods and services (433). *Homo œconomicus* further deteriorates freedom because this person is meant to be malleable. However, rather than being ruled by rights or laws, he or she is ruled through interests, investments, and competitions (434). Tan argues that neoclassical economics aims to manipulate the *homo œconomicus* to provoke a specific reaction and to increase the person's governability. He closes the article with defenses of human capital theory made by both Becker and Schultz. They argue that human capital theory brings attention to the poor and situations of inequity that can be improved by economically efficient investments (435). Thus, in their view, human capital theory combats, rather than perpetuates, the dehumanization of the disadvantaged.

Sandona and Aladi (2013) argue that human capital theory is incomplete in its description of human development as driven by human capital and that integral development is also the result of social capital and personalist capital. These alternate forms of capital are qualitative, and they refer to a person's stock of social choices, experiences, beliefs, and virtues (26). Sandona and Aladi are of the perspective of personalist economics, which aims to reconcile Christian moral claims with economic theory. One emphasis of personalist economics is that it replaces the use of *homo œconomicus* with that of the acting person, who is a free and fallible being seeking integral human development. Therefore, personalist economics views the foundation of human capital as the integrity of human nature and the promotion of the dignity of the person (28). Without denying the instrumental value of humans, it insists that the economic actor is greater than just an instrument, and he or she can be measured by more than material well-being and GDP. Sandona and Aladi reference Catholic Social Thought, which emphasizes not only that human capital has a monetary purpose, but also that investments in people can contribute to world peace. They also pose arguments against the neoclassical assumption that economic return is guaranteed by human capital investment. Rather, other human factors and political elements lead to poverty and unemployment (28). Thus, the authors hope to broaden human capital theory by putting humans in social terms rather than individualistic terms. In their view, because human nature is matter and spirit, individuals are unique and have irreducible dignity. Furthermore, humans do not only seek utility, but also engage in their passions, customs, morals, and virtues. To deny these truths would offend human value, and to dismiss the poor or ill by using cost-benefit analysis would be immoral (29). In Sandona and Aladi's understanding of human capital theory, social capital and personalist capital also influence one's well-being because choices are influenced by culture, environment, and moral conduct, not just goods and services. Thus, using personalist economics, they assert that the "exploitation of [human capital] is morally good or bad according to the morality of the means used and ends pursued" (33) and that to describe a person simply as an instrument of the economy is wrong. Rather, human capital theory should account for the complexity of human capital in attaining integral human development (33).

Sandona and Aladi's conclusions are in direct contrast to Gary Becker's work. Human capital theory has a history that precedes its formal development during the twentieth century, but it is in the twentieth century that the current use of the term becomes normalized and disseminated, largely through Becker's work. In *Human Capital: A Theoretical and Empirical Analysis with Special Reference to Education*, Becker presents a compilation of his research and findings in his fundamental work on human capital theory. His thorough presentation "is concerned with activities that influence future monetary and psychic income by increasing the resources in people" (Becker 1994, 11), also known as human capital investment. In the first edition of the book, published in 1964, Becker analyzes decision-making regarding education, training, health care, and migration. In subsequent editions of the book and in articles in the following decades, Becker focuses on the nonmarket sector: family, fertility, and even parental affection, marking a critical shift in the application of human capital theory from market relationships to human relationships.

As human capital theory rapidly gained the attention of economists and researchers in the late twentieth century, its scope grew, as in the case of Becker's work on the family. However, as Kiker and Sweetland demonstrate in their respective articles, human capital theory has a rich history, and economists who identified human capital did so for a number of reasons. Analysis of Adam Smith's work, which provides the foundation for human capital theory, demonstrates that he formulated a field of thought that can uplift the human person. Human capital theory can be utilized in a humane way. Even within Becker's extensive research, there is a variety of analysis, much of which has positive implications for human life, such as his foundational study that uses the methodology of human capital theory to evaluate returns on investment in education (Sweetland 1996, 347).

It is useful, therefore, to compare Becker's work to Smith's to analyze whether it is consistent with Smith's view of the dignity of the human person and the role of the person in the economy. Smith's discussion of the source of the wealth of nations and the economy emphasizes the value of individuals to economic life. He is concerned not only with the labor value of the person and how it impacts the economy, but also with the conditions that the individual deserves due to his or her value as a human person. By emphasizing the importance of the laborer, living conditions, and education for the betterment of society, Smith affirms human capital theory without ever using the phrase. When defining capital in Book II of *Wealth of Nations*, Smith identifies people as the end, means, and producers of capital. The purpose of capital is to increase stock for consumption, which in turn "feeds, clothes, and lodges the people" (Smith 2007, 218). Humans use their abilities to create physical capital by laboring over raw materials or land and then circulate the capital through the middle class. He lists types of physical capital such as machines and buildings, but notably includes "the acquired and useful abilities of all the inhabitants or members of society" (217). Thus, humans drive every aspect of capital, and Smith conducts his analysis according to this observation.

Smith's understanding of the human person leads him to argue the importance of education and improved living standards for the middle and especially lower classes. In Book V of the *Wealth of Nations*, Smith states that public education for the youth may "furnish a revenue for defraying their own expense" (587), arguing that investment in public institutions of education is well worth a well-functioning society. Educated people, according to Smith, are not only more productive, but also more orderly, and "a man without the proper use of the intellectual faculties of a man, is, if possible, more contemptible than a coward" (607). Here, Smith shows concern with the productivity of the person as well as his virtue. The virtue and talents acquired through investing in humans "make a part of his fortune, so do they likewise of that of the society to which he belongs" (217). In order that the laborer flourishes and promotes society, he also must be paid a just wage. Smith argues that wages must be enough "that the lowest species of common labourers" must earn enough to raise a family, "more than what is precisely necessary for their own maintenance" (58).

By maintaining the dignity of the human person through his economic analysis, Smith discusses human capital in a humanizing way. He keeps the person at the center of his arguments for education and wages by emphasizing the benefit to the person along with the benefit to society. When discussing the lowest class of workers, Smith does not suggest that they limit their family size or deserve less respect than anyone else; rather, he argues that they be paid more than what they need to maintain the household they choose to have. Smith also believes that education is especially important for the lower classes in order to elevate society (604). However, he does not believe that this implies that the menial laborer is less valuable or even less naturally talented than those of the upper class. In fact, the natures of a "philosopher and a street porter" are not so different as are their "habit, custom, and education" (17). By demonstrating the intrinsic equality of people, Smith encourages human capital investment while protecting the dignity of the individual. Smith's work here is crucial to the further development of human capital theory in part because of its opposition to mercantilist ideology. Unlike William Petty, who was interested in investing in humans solely for the power of the state, Smith proposes that a successful country is one in which all members flourish.

The development of human capital theory by economists, including Becker, during the twentieth century, is reflective of the significant impact made by Smith's analysis of wealth and capital. He pursued research in education investment and brought to light the positive correlation between high school and college education and income (Becker 1994, 17). This research is especially important because it brings attention to marginalized or disadvantaged populations and how a lack of access to human capital investment may perpetuate poverty. However, a focus on Becker's work that has diverged from the foundation created by Smith is necessary in order to highlight the misconstruing of human capital theory.

In the third edition of *Human Capital: A Theoretical and Empirical Analysis with Special Reference to Education*, Becker dedicates a chapter to economic growth and fertility. With the goal of demonstrating the connection between population fluctuation and economic growth, Becker discusses how human capital influences fertility (324). Here, Becker operates on the idea that "higher fertility discourages investments in both human and physical capital" (324) due to increased costs of each child. Throughout the chapter, he uses mathematical formulas to calculate the utility gained by the parent from his or her child. In one, he applies the idea of diminishing marginal utility to the parent as the number of children increases (326). Variables he uses include utilities of parents and children, parental consumption, number of children, and degree of altruism per child. This analysis immediately poses a contradiction to Smith's point of view. To refer to a child's value to their parent as a diminished utility disregards the dignity of that person. Though Becker does not explicitly suggest that he is measuring a parent's love for their child, one cannot engage in such analysis without implying that love or familial bond can be measured in economic terms. To speak of utility gained by a parent from their child is to implicitly speak of a parent's love for their child because, generally, that is the most fundamental "satisfaction" that a parent derives from family. In this analysis, Becker fails to keep the human being at the forefront of his economic activity. Though he is talking about people, he prioritizes economic value over personhood itself and those innate qualities which transcend economic life: love, family, and parenthood. Furthermore, Becker posits that the degree of parental altruism per child "is negatively related to the number of children" (326). Whereas Smith's economic analysis responds to the needs of the family, Becker's makes the child a product consumed by the parent, and in doing so, fails to uphold the dignity of the person and the family.

Becker's economic analysis of human relations is also observed in his essay "An Economic Analysis of Fertility" in which he examines population rates from an economic standpoint. He attempts to understand the effect of income as a determinant of family size, especially as it correlates with contraceptive knowledge. Becker's language here echoes his language in *Human Capital*, stating that for parents "children are a source of psychic income or satisfaction" and that economically speaking, they "would be considered a consumption good" (Becker 1960, 210). In this essay, Becker speaks of people as goods in an even more concrete fashion in order to "relate the 'demand' for children to a well-developed body of economic theory" (210) in his study of population. Becker defends his analysis by claiming that he does not imply that children are morally the same as other goods (210), but most would object to his analysis that to "call more expensive children 'higher quality' children, just as Cadillacs are called higher quality cars than Chevrolets" (211) is dehumanizing and has implications for how society treats children.

With the above argument in mind, one can better understand the objections made against human capital theory. The *homo œconomicus* view described by Tan, which necessitates that all aspects of human life are put into economic terms, is exemplified by Becker's likening a "higher quality" child to a Cadillac and a "lower quality" one to a Chevy. Tan's concern that the economic being lacks morals is confirmed by the idea that a parent would gain less satisfaction from their successive children. Sandona and Aladi also identify this moral error, which is why they argue for a broadening of human capital theory. Their personalist approach aligns more closely with Smith's thought because it emphasizes the irreducible dignity of the human person and adjusts treatment of the person accordingly. By seeing human beings as acting persons rather than simply *homo œconomicus*, personalist economics offers a wholistic view of human capital that is consistent with the assertion that putting human relationships in economic terms would offend human value. It would find the human capital of children far too complex to be explained as the "tastes, income, and price" (Becker 1960, 213) determined by their parents.

While Smith does liken human beings to goods for consumption, it is important to note that because he does so to a lesser extent and in a smaller domain, his analysis is more closely aligned with the personalism advocated by Sandona and Aladi. When describing capital, Smith explains that the skill of a laborer "may be considered in the same light as a machine or instrument of trade" which "repays [its] expense with a profit" (217). Smith makes use of this analogy when he argues for investments in all members of society, but he does not attempt to liken familial relationships to preferences for different kinds of machines. The contrast between Smith and Becker here marks the limits of human capital theory and underscores the importance of remembering human dignity in the economy: to maintain it, personhood must be kept at the forefront of all economic dialogue.

While the German linguists' "unwording" of *human capital* may be an extreme response to the moral objections raised by the phrase, it appears that Smith would disapprove of certain utilizations of human capital theory. Early economic thought on human capital investment such as Smith's exemplifies the good that research into human capital can do. Not only did Smith utilize his discussion of human capital investment to argue for better treatment of laborers and the lower class, but he also influenced what would become a significant area of study in economics with potential to benefit people.

As is seen in the literature, researchers have relied on human capital theory to promote quality education, equitable policy, and public health. Although Gary Becker contributed to these advancements in research on quality of life, he failed to maintain the dignity of the human person when he spoke of the family in terms of marginal utility and suggested that investment in children could be compared easily to investment in material goods. Such analysis confirms the objections made by critiques of the theory as demonstrated by Tan. To reduce humanity simply to an economic subject choosing between alternate goods—even in the case of one's own children—suggests a person who has become dehumanized, with no ethics or telos, and who is impressionable to competition. Aladi and Sandona advocate for a reliance on the ideals of Catholic Social Thought to morally utilize human capital theory. However, throughout his career, Becker published extensive work applying human capital theory to many facets of economic life. It would be hasty to deem *human capital* a phrase that should no longer exist. Rather, those who utilize it should be aware of its potential implications regarding the human person. Gary Becker and Adam Smith illustrate the fact that discussion regarding human capital has moral and social implications that can either improve quality of life or cause further dehumanization of the person.[1]

Notes

[1] Although outside the scope of this article, Aladi and Sandona's personalist viewpoint and the principles of Catholic Social Thought provide a framework for scholars to analyze human capital from a humane perspective that is consistent with the ethics of secular humanism, Buddhism, Islam, Judaism, and mainline Christian denominations.

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