

Theodore Schultz : Human capital and economic development

Investment in Human Capital.

In 1961, Theodore W. Schultz has published an article in the American Economic Review entitled "Investment in Human Capital". In this article, Schultz introduced his theory of Human Capital. He mentioned that both knowledge and skills are form of capital, and this capital is a product of deliberated investment, that has grown in Western societies at a much higher rate than conventional (nonhuman) capital. Schultz also linked between the increase in investment in human capital and the overall increase in workers earnings. Investment in human capital may be the major explanation for the distinctive feature of economic system.

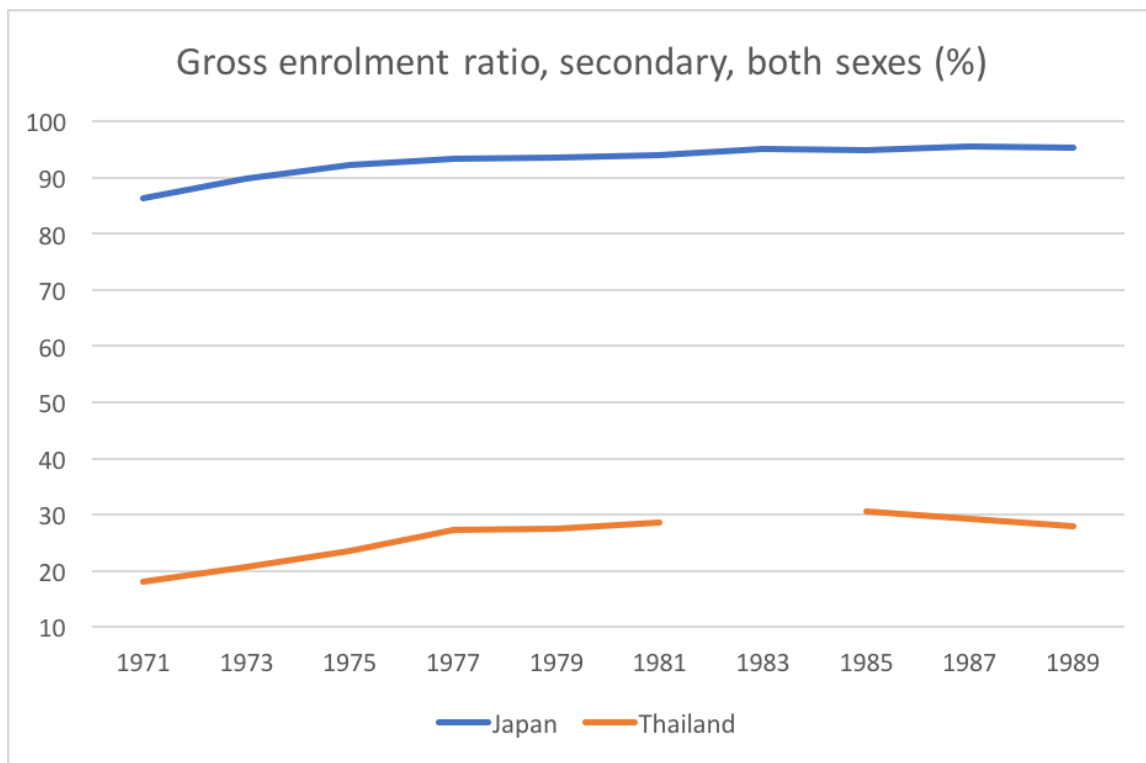
The first section of the article deals with about 'Shying Away from Investment in Man', which he has mentioned about the reason why economists have shied away from the explicit analysis of investment in human capital. Schultz argued that economists have been afraid to related human being as capital because the concept of human capital has a negative implication that arise from the American experience of slavery. For Schultz, the concept of human capital implies an investment in people. By investing in themselves, people can enlarge the range of choice available to them, which can enhance their welfare .

For the second section of the article, Schultz mentioned about how the difference earning between people relates to the differences in access to education and health. For the underdeveloped countries, the short-term investments are needed such as shelter and food. In other countries whose main concern is not basic need, they have an opportunity for the long-term investment which are education, health care, and migration. The long-term investment can help the strengthen the economy.

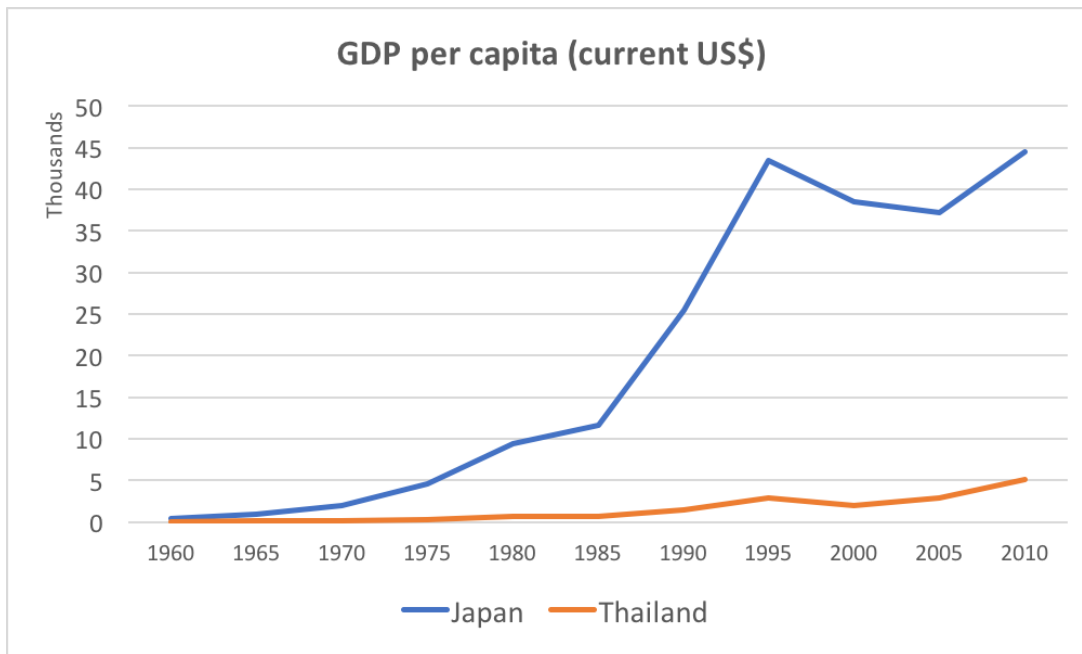
The third section deals with the 'Scope and Substance of These Investments'. Schultz believes that the investment in human capital would lead to an increase in human productivity and lead to a positive rate of return. The return from the investment in long-term will far outweigh the cost.

Human capital and economic development

Historically, Japanese society has very great concern about the importance of education. Japanese always realize that the investment in human capital is the same as an investment in manufacturing tools. After WW II, Japan began to modify some of the changes in education. From 1945 to 1975, the junior high school enrolment ratio increased considerably from 42.5% to 91.9%.



Between 1971 to 1989, the gross enrolment ratio of secondary school of Japan were quite stable between 85% to 95%. For Thailand, the gross enrolment ratio was very low compared to Japan, which only about 20%.



In 1960, the GDP per capita in Japan and Thailand were about \$ 478,995 and \$ 100,767, respectively. After 1965, GDP per capita in Japan gradually increase. The difference of GDP per capita between Japan and Thailand began to increase. In 1985 to 1995, the GDP per capita in Japan was went up very rapidly. Japan GPD per capita was 15 times higher than Thailand in 1995.

From the data, there is a correlation between the investment in capital which is education and the economy. Japanese has concern about the investment in human capital since after World War II, so the enrolment ratio rate was very high at that time. The investment in human capital would eventually leads to an increase in human productivity as Schultz has mentioned. About 1985 to 1990, the GDP of Japan grew up very fast due to a high human productivity.

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