

THE "VALUE" OF INVESTMENT IN HUMAN CAPITAL FORMATION¹

I want to use this opportunity to express my sincere gratitude to the University of Pretoria for bestowing on me an honorary doctorate at this ceremony. I am in the fortunate position that will reach the age of 80 years on my birthday next week Wednesday, the 17th of April. I will remember this occasion here with you today as one of the high points – if not *the* highest high point – of my life.

I want to start my address by telling you a story from my childhood days on my father's farm in the Kroonstad district. In the 1940s *Die Huisgenoot* was not the sensational journal that it is today. In 1948 (when I was 15 years old and in Standard 8) *Die Huisgenoot* published a special academic edition in which NP van Wyk Louw and other professors published articles. One of the articles was written by Prof. CGW Schumann, dean of the Faculty of Commerce at the University of Stellenbosch. (It so happened that I became a neighbour of Prof. Schumann when I bought my house in Stellenbosch in 1965).

On the first page of Prof. Schumann's article there was a little "window" with the following sentence:

"Ons eerste belegging moet in menslike kapitaalvorming wees want dit is die risiko belegging wat oor die langtermyn die hoogste dividend lewer".

Our first investment should be in human capital formation, because this is the risk investment that deliver the highest dividend over the long run.

I learned this sentence by heart and repeated it loudly over and over and over again while walking around on my father's farm. At that stage I had no idea of the full meaning of the sentence. I repeated it loudly because it sounded so beautiful to me. It sounded like music in my ears.

¹ Opening address at the graduation ceremony of the University of Pretoria on 10 April 2013 in Pretoria.

After several years at the University, I became aware of the real meaning of that sentence. In the early 1960s I specialized in the history of economic thought. While doing that, I became aware of a new school of economic thought that had emerged during the 1950s. This new school of economic thought was labelled *the revolution in thinking about human capital formation*. This school of economic thought explicitly emphasized for the first time that if the contribution (productivity) of investment in building and machinery is compared with the contribution (productivity) of investment in human capital formation, then the contribution of investment in human capital formation can be seen to be promoting the *general well-being of society at large* to a greater degree than investment in buildings and machinery.

I am going to restrict myself in this address mainly to university education without denying that investment in primary and secondary education is as important – if not more important – than university education.

While the investments in buildings and machines lost their value over a relatively short period and are therefore subject to the "law of diminishing returns", investment in human capital formation maintains its value for a long period and this kind of investment is often subject to "the law of increasing returns" – especially over the long run. Most people complete their university education by the age of 25 and remain part of the workforce until the age of 65 – i.e. they are operational for a period of 40 years. It has even happened that some university-educated people remain part of the workforce until the age of 80 – i.e. for a period of 55 years! I do not know of a machine that is still operational after 55 years.

The revolution in thinking on human capital formation has been exceptionally influential in the developed countries since the SWW. In all the countries in the Rich North an explosion of universities has taken place over the past 60 years. The total number of students at these universities has exploded to an even greater degree. These explosions of the number of universities and the number of students were a very positive and valuable development. It is 65 years since Prof. Schumann wrote his article in *Die Huisgenoot*. Nobody can doubt that he was far ahead of his time.

The number of universities in the Global South is not as high as the number of universities in the Global North. Luckily there has recently been a noticeable increase in the number of universities in the South. Many of the prominent universities in the North are opening satellite campuses in the Global South.

Let me say something about primary and secondary education in the Global South. Many of the countries in the South are too poor to spend adequately on primary and secondary education. Since the early 1980s the Bretton Woods Institutions have made Structural Adjustment Programmed applicable to highly indebted countries in the Global South in an attempt to increase the export abilities of these countries. An important prescript of the Washington Consensus was that the relevant countries should maintain fiscal austerity. This prescript forced the countries in the Global South to cut back on their spending on education and health. This may have been an unintended consequence of the Structural Adjustment Programme, but it is something that must be deplored. The per capita income of countries in the South is less than 25% of the per capita income of the North. Almost 2 billion people in the South are living on less the \$2 a day. We can list several reasons for the perpetuation of poverty in the Global South. One of the most important reasons for the persistence of poverty in the South is that the level of schooling and the level of human capital formation are at a far too low level in the Global South. Consequently, the *productivity* of the potential workforce in the South is too low.

Although the multiplication of universities and of university students in the world since the SWW must be identified as one of the most positive trends in the postwar period, we ought not to ignore potential negative trends *within* universities. Prof. Hennie Rossouw – who was Vice-Rector (Education) at Stellenbosch from 1985 until 1992 – delivered a lecture at Potchefstroom University in 1998 in which he identified three trends at universities that are reasons for concern. He described the three potentially negative trends with the following three words:

- a) the trend towards the **professionalization or the vocationalization** at universities;
- b) the trend towards **commercialization** of universities;
- c) the trend towards the **corporatization** of universities at the cost of university collegiality.²

1. Professionalism and/or Vocationalism

With the words 'professionalism' and 'vocationalism', I am referring to the tendency to expect of universities that they should prepare students to be "ready made" for employment in specific and "useful" professions or vocations. In principle there is nothing wrong with this tendency. As far as the so-called statutory professions are concerned, it is indeed the task of universities to prepare students for those professions. But in most cases students had to do practical work and had to write additional examinations before they could qualify to become a member of a statutory profession. Things became problematic, however, when professional organizations became inclined to prescribe *in too much detail* what the curriculum must be for a specific statutory degree. Universities should protect their independence against the pressure of statutory professions as far as possible.

We must remember that a university has the dual task to educate students for the demands of the future and to "train" students for a specific vocation. A university ought to remember that when it "trains" students for vocations, it should not neglect its further responsibility also to educate students for an uncertain future.

Universities should guard against their task of equipping students with a so-called "literal education" not being crowded out by the tendency towards unbridled vocationalism.

² Rossouw, H.W., 1988. *Die wese van die Universiteit en die druk van 'n tegnologies gedrewe omgwing*. (unpublished).

I am aware of the pressure the private and the public sectors put on universities to produce graduates who would be "productive" and would make a direct contribution to a higher economic growth rate. I am, however, more concerned about the contribution graduate students can make towards promoting the *general well-being of society at large* than about their contribution to a higher economic growth rate.

In a colloquium organized by the Department of Economics at the University of Pretoria later this afternoon, I will explain the difference between promoting the *general well-being* and stimulating a higher economic growth rate.

2. Commercialization

With the sharp increase in the number of universities and the number of students, the total expenses of all universities have increased sharply since the SWW. There was a time in most countries when the governments were prepared to subsidize universities heavily. But as more demands were made on governments, they decreased the subsidies for universities. This forced universities to rationalize their spending and to look for alternative sources of income. In this way the universities have had no choice but to become more *commercialized*, i.e. they are forced to act as businesses and to deliver "goods" and "services". They have to deliver marketable commodities and services.

The tendency towards the commercialization of universities may have had the good consequence that universities were forced to become more relevant and more useful in society – at least in the short term. But these tendencies can endanger the *ethos* of universities. Prof Rossouw quotes Shirley Williams – a former minister of a previous Labour Government in the UK:

Those who want to harness the universities to commercial objectives may destroy the very qualities they admire in them – intellectual excellence, free inquiry, scientific imagination. The pendulum has swung too much.

It is not my task to identify specific universities in which the pendulum has swung too far in the direction of *commercialization*. All I can say is that universities ought to be careful not to be guilty of too much commercialization.

3. Corporatization

The third tendency that gives reason for concern is that towards corporatization. Over the past 60 years the number of universities has multiplied, but many of them became huge organizations with vastly more students than they had 60 years ago.

To administer such a huge organization turns out to be a difficult task. Consequently, many universities are inclined to use the "organizational model" of big corporations in the administration of their universities. Although this tendency cannot be denounced unconditionally, it is again a matter that necessitates careful consideration.

The organizational model that is traditionally associated with universities is the model of *collegiality* that is less hierarchical than the corporate model. According to Prof. Rossouw, we can regard a university as a "republic of scholarly persons". In this "republic" all the professors ought to participate in one way or other in the administration of the university. It is not my intention to be prescriptive about the way this "republic of scholarly persons" should be organized. I only want to make the point that this "republic" should not be regarded as a business corporation. This would also be against the ethos of a university.