

# THE "VALUE" OF INVESTMENT IN HUMAN CAPITAL FORMATION<sup>1</sup>

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I want to use this opportunity to express my sincere gratitude towards the University of Pretoria to bestow on me at this ceremony an honorary doctoral degree. I am in the fortunate position that will reach the age of 80 years on my birthday next week Wednesday, the 17<sup>th</sup> of April. I will remember this occasion as one of the high points – if not *the* highest high point – of my life.

I want to start my opening address by telling you a story from my childhood days on my father's farm in the Kroonstad district. *Die Huisgenoot* was in the 1940s 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. Prof CGW Schumann, dean of the Faculty of Commerce at the University of Stellenbosch, wrote one of the articles. (It so happened that I became a neighbour of Prof Schumann when I bought my house in Stellenbosch in 1965).

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

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 would 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 on my fathers' farm. At that stage I had no idea about the meaning of the sentence. I repeated it loudly because its sound so beautiful to me. It sounds like music in my ears.

After several years at the University, I became aware of the real meaning of that sentence. I specialized in the early 1960s on the History of Economic Thought. While doing that, I became aware of a new School of Economic Thought that emerged during the 1950s. This new School of Economic Thought was called *The Revolution in Thinking about Human Capital Formation*. This

School of Economic Thought emphasized for the first time explicitly 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 is 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 investment in buildings and machines lost its value over a relative short period and is, 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 completed their university education at 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 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 on 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 took 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 big as the universities in the Global North. Luckily there has lately 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 is too poor to spend adequately on primary and secondary education. Since the early 1980s the Bretton Woods Institutions have made Structural Adjustment Programmed applicable on highly indebted countries in the Global South in an attempt to increase the export ability of these countries. An important prescript of the Washington

Consensus is that the relevant countries should maintain fiscal austerity. This prescript has forced the countries in the Global South to cut back on their spending on education and health. It may be 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 than \$2 a day. We can list several reasons for the perpetuation of poverty in the Global South. One of the most important 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 at a 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, 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 the Potchefstroom University in 1998 in which he identified three trends at universities that are reasons for concern. He described the three potential negative trends by 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<sup>2</sup>.

## **1. Professionalism and/or Vocationalism**

With the words professionalism and vocationalism, I am referring to the tendency that expect from 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 concern, 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 can qualify to become a member of a statutory profession. Things became, however, problematic when professional organizations are inclined to prescribe *in too much detail* what the curriculum must be for

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

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 when it "trains" students for vocations, that it should not neglect its responsibility to educate students also for an uncertain future.

Universities should be careful that their task to equip students with the so-called "liberal education" should not be crowded out by the tendency towards unbridled vocationalism.

I am aware of the pressure the private and public sectors put on universities to produce graduates that 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 to promote the *General Well-being of Society, at large* than 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 has been a time in most countries that 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 no choice but to become more *commercialized*, i.e. they are forced to act as a business and to deliver "goods" and "services". They had to deliver marketable commodities and services.

The tendency towards the commercialization of universities may have the good consequence that universities were forced to become more relevant and more useful in society –



at least on 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 the tendency towards corporatization. Over the past 60 years the number of universities multiplied, but many of them became huge organizations with much more students than 60 years ago.

To administer the huge organization turn 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 hierargical 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 that this "republic of scholarly persons" be organized. I only want to make the point that this "republic" should not be regarded as a business corporation. It would also be against ethos of a university.