Book Review


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The death of human capital? Its failed promise and how to renew it in an age of disruption, is authored by three renowned sociologists whose interests span across a number of diverse areas such as sociology, politics, education, religion, and labour markets. These interests are reflected through the multiple perspectives they introduce in their writing, and the call for plurality around the new theory of human capital that they propose. Though complex, it is an intriguing easy read, written in simple language and style. The book of 287 pages and 17 chapters is divided into three parts: Part I provides a detailed account of the orthodox theory around human capital and its main tenants. Part II skilfully critiques the orthodox theory in establishing the need for a new theory on human capital. In a final Part III, the authors propose an
alternative theory (the socioeconomic theory of human capital) that better aligns with the intricate and dynamic social and economic evolution that we experience.

This book comes out at a time when we have serious concerns over the availability of decent work and jobs; escalating student loan debts; lack of well paid jobs; underemployment; unemployment; increasing psychological pressures faced by both the employed and unemployed; increased competition to enter into best colleges and universities to gain competitive advantage; feelings of depression, self-doubt and pessimism about the future experienced by the young; and a rise in mental health illnesses, stress levels, and homelessness. Given this backdrop, the authors question the validity of the orthodox theory of human capital and the notion that it presents – that *learning equals earning*.

The authors bravely and ironically speculate the *death of human capital* at a time that we experience a peak in enrolments in higher education and an increasing demand from employers for skilled labour. They believe that a new theory for human capital helping us rethink education, jobs and the contributions of people around us is warranted, given the challenges that we experience in an age of global competition, new technologies and heightened economic inequalities. Thereby the book focuses on the lack of decent jobs and work; talent and work that is unrewarded; how different people capitalize on their knowledge and skills; and the differences in social and historical contexts that impact how people understand, and utilize skills and knowledge. By doing so, they dispute the universal and deeply ingrained acceptance of the orthodox theory of human capital and reject the positive “universal relationship between learning and earning” (p. 4) that it proposes, thus calling for a paradigm shift in human capital theory incorporating contextual and processual understanding on human capital.

A rich account of the orthodox theory of human capital is provided in Part I of the book. Though its roots go far back as in times to those of Aristotle, Ibn Khaldum, Thomas Aquinas, Sir William Petty, and William Farr, its more prominent history is discussed starting from early 1960s. The authors claim that the theory rose to prominence after the Great Depression and the World War II, as nations committed to achieving social progress for their people. It elaborates how the concept of private property came into being through the utilization of one’s labour for production and the role it played in periods of market capitalism, nationalism, and neo liberalism impacted by the works/concepts such as Adam Smith’s Division of Labour, Alfred Marshall’s remedy for low wages and poverty – better education and specialized
skills (personal capital), Theodore Shultz’s Investment in Human Capital, and Gary Becker’s definitions of human capital as a product of market investment and the proportionate relationship between education and training, and earnings. Part I draws from the different stages and cycles that human capital theory experienced both in the United States and the United Kingdom. It extensively elaborates how governments, firms, families and individuals believed that investing in education and training would reap them more national economic growth, company profits, upward social mobility and individual wages, respectively. The role played by the orthodox theory on human capital in institutional and national policy formulation, and politics is explained very clearly. Illustrations drawn from political beliefs held both in the USA and the UK are used by the authors to portray the long lived and widespread policy appeal that the theory enjoys to date, despite obvious limitations such as negligence of the impact that race, gender and other personal characteristics have on one’s earning capacity irrespective of his or her education or skill level. Towards the end of Part I, the implications that globalization, global competition for jobs and wages and the “The East Asian Miracle” had on the conventional views of human capital are elaborated questioning the currency of the theory.

Part II refutes the orthodox theory on human capital via a review of literature. The authors argue that the orthodox theory of human capital has become a problem rather than a solution on five grounds. The first being inequalities of earnings and the increasing polarization of incomes despite similar investments in education. The authors bring in data of earnings of high school leavers, college educated, and those with Masters or PhD, from the UK, USA, and OECD countries ranging from 1970s to 2015s, and dissect this data based on the bottom decile (10%), median (50%) and top decile (90%) earners and also based on occupation, gender and age group. Through this, they rigorously present with evidence, three reasons for the linear causal positive relationship proposed between learning and earning to be flawed – 1) the hidden inequality in education (e.g. internal stratification between different types of education and institutions); 2) labour market stratification (by gender, class, race, ethnicity, industry and occupation); and 3) extreme outliers in earnings (within-group inequalities by education and occupation). They highlight the inequalities (resulting in increasing polarization of incomes) experienced by individuals based on their sex, social class, and race rather than on meritocracy as opposed to the claims of being rewarded for merit, as suggested by the theory of human capital. The phenomenon of the super manager – top executives pocketing in unprecedented compensation packages – is also discussed questioning whether their marginal returns warrant such compensation. This, they argue has led to the concentration of economic power
among a minority superrich elite creating a vicious cycle of deprivation for those experiencing reduced opportunities and in turn lesser financial ability to invest in their children. A discussion on how the investments on education made by women, minorities and those from lower social classes not being mirrored in the rates of return that they receive on such investment is brought in with evidence from the data from a number of countries. Based on rich evidence and analysis, the authors conclude that wages do not reflect investment in education.

The second argument that the authors put forth on the orthodox theory of human capital revolves around credentials. They explain that though people may be highly qualified in credentials (rise in supply), if the availability of suitable jobs is minimal (less demand), the price for such labour will reduce, which suggests a weakening of the exchange value of the educational credentials possessed by individuals – again leading to situations of low earning capacities and underemployment. This results in individuals seeking to attain even higher educational and professional qualifications to remain competitive by investing time, effort, and money as a response to pressures of competition from others. Credential inflation is seen as a “symptom of social congestion” (p. 92) created by “too many people wanting to get into similar education and occupational journeys” (p. 93). On a different note, the authors also point out that employers expect an extension of credentials to be presented by a job seeker in the form of a wider personality package including both hard currencies (credentials) and soft currencies (social confidence, interpersonal sensitivity, business awareness, exposure to different cultural contexts or learned foreign languages). The authors argue that those from disadvantaged backgrounds of class, gender, ethnicity or culture find it increasingly difficult to meet this requirement of “embodied cultural capital” (p. 95) (borrowed from Pierre Bourdieu) expected by organizations, though they possess required credentials.

The third argument is termed elite closure. The authors explain that when the scarcity value of college education is no longer valid, that social elites will resort to alternative methods to maintain their “distinction” (p. 94). This is reflected in the form of elite, private and international league colleges and schools (whose entrance fees are unaffordable to ordinary families), and the international ranking of schools, colleges and other higher educational institutions, which leads to an “elites’ monopoly of educational excellence” (p. 97). This creates an edge for wealthy elites via access to internationally recognized qualifications that are considered by organizations in their hiring decisions. The authors stress that this changing character in education has led to important and negative consequences on class as opposed to the aims presented by the orthodox human capital theory.
The fourth argument that the book presents is the narrowing of academic purpose to education for employability. The authors remind especially the aims of higher education which were and should be wider (nation building and citizenship, development of individual character) than simply economic in nature (supplying people who are job ready). They assert that the institutional divide between education and the workplace no longer prevails. The measures taken by educational reformists (in different areas such as investment, pedagogy, curriculum, and assessment) to adjust education to changing employer demands too are noted by the authors to have failed miserably due to two reasons: 1) the context specific nature of both work and education; and 2) the rapidly changing industrial needs and the lack of institutional flexibility of educational institutions to keep pace with such change. This reductionist approach to education has ignored the importance that needs to be placed on the better social and economic benefits that can be reaped from education.

The fifth and final argument provided by the authors is the theory’s failed promise of development. The authors argue that the push from the World Bank and other developed nations for developing nations to increase investments in education has not paid off in terms of economic growth in such countries but rather that they are “falling further behind” (p. 102). They establish this point bringing in data and statistics of educational investment and economic growth of countries such as Kenya, Malaysia, Morocco, South Korea, Taiwan, India, China, North Africa, Arab states, Latin America, and the Caribbean. They cite five reasons for this: 1) lack of creation of desirable jobs in the economy; 2) focus on the quantity of the investment rather than the quality of the investment; 3) lack of focus on technological innovation, infrastructure development and the role of economic institutions in the journey towards economic growth; 4) unplanned efforts around the use of the qualifications and skills attained through investments in education; and 5) the intensification of brain drain within an age of migration. They specially emphasise on the element of brain drain referring to self-funded international students staying back in developed countries and those educated locally seeking greener pastures abroad, leaving little, if any, benefits to the home country. They are likely to be a permanent loss to the country of origin, which made the investment in education, except in few cases in terms of transnational networks, a few hi-tech workers returning, and remittances. They state that this has benefitted Western countries in the form of lucrative earnings via export education business and the acquisition of a work-ready, high skilled talent pool at no or minimal cost. However, the authors also draw attention to inequalities of income earned by these immigrants in terms of significant pay gaps, and work opportunities relative to native-born workers with the same educational
qualifications. Based on the above grounds, the authors assert that education is one of many complimentary conditions on which economic development depends rather than the sole, and that it should go hand in hand with lasting “political will of the state, active industrial policy, and cooperation between national governments” (p. 119).

In positioning their new theory on human capital, the authors direct us towards five truths conveniently overlooked by the orthodox theory of human capital – 1) it is a decent job scarcity that exists rather than a skill scarcity; 2) people experience fundamental inequalities in opportunities available to them (based on gender, class, socio economic background, ethnicity and nationality); 3) human capital is embodied in the person – therefore cannot be bought or sold; 4) people are motivated in different ways encompassing self-sacrifice, identity and social purpose – not solely on economic interests and market signals; and 5) markets are a part of society and cannot function on their own – “human society is the foundation for capital accumulation, consumption and distribution” (p. 149). In light of these, the authors emphasise on a process that individuals, employers, and nations involve in or should involve in, for translating abilities, skills and qualifications into earnings. They describe this translation process to be affected by several factors such as the structure of labour market opportunities, and the differences in market power demonstrated by conflicts of interest between individuals and employers.

Through this critical evaluation of the orthodox theory on human capital, the authors assert that individual freedom is curtailed rather than nourished in an ongoing effort by individuals to attain higher qualifications as a means of staying competitive (and attaining earnings via learning). They therefore observe the need for a radical shift of our thinking and understanding of human capital and present an alternate theory to human capital. The socioeconomic theory on human capital is based on the premises of job scarcity as opposed to labour scarcity; “humans as capitalizing rather than human capital” (p. 141); the intricacies involved in self-liberation; and the fundamental inequalities in opportunities available to people.

To address the above realities neglected by the orthodox theory of human capital, the authors call for an interdisciplinary inquiry proposing alternative views of labour supply and demand. Around the alternative view of labour supply, they stress the need for lifelong learning as opposed to episodic learning endeavours solely aimed at employability. They propose policy level interventions via industrial policy to create opportunities for people to retrain and reinvent themselves on a regular basis to be
context specific in times of rapid technological disruptions. The state’s intervention in enabling people to be involved in jobs that are satisfying and meaningful to them, making societal contributions, despite relatively lower earnings made from such jobs, is given prominence. The authors disagree with the proponents of the orthodox theory of human capital who postulate that market competition alone will resolve issues of demand and supply of labour. They consider that it is vital to facilitate learning to “know” (p. 161) (desire for knowledge beyond its mere market value), “do” (p. 162) (vocational purposes) and “be” (p. 165) (personal integrity, conduct, and ethical ambition), appreciating that these are not distinct but integral elements for holistic learning and work. They also consider it a necessity to promote social inclusivity and togetherness via mutual recognition, respect, dignity, and tolerance when learning and earning. To achieve these, they propose, addressing social inequalities based on gender, class, socio economic background, ethnicity, and nationality; moves towards equalizing educational opportunities; and creating a “level playing field” (p. 171) for all that promotes meritocracy.

Through their alternative view on labour demand they call for changes in the occupational structures that demand for professionals and managers; the need for recognizing undervalued or non-valued human activity leading to economic growth and “human flourishing” (p. 133); the need for viewing technological change as “external stimuli that will reshape labour demand” (p.182); the major role that the state has to play in job creation and industrial policy; the achievement of “shared prosperity” (p. 191) for both organizations and labour rather than exploitation of labour at the prosperity of organizations; and finally propose a rebalancing of interests in favour of wider society rather than for a powerful minority of corporations and individuals. They cite this as the way forward for an occupational structure leading to more, better, and suitable work opportunities that can accommodate the increasing numbers of better educated and skilled individuals.

The socioeconomic theory of human capital proposes 1) “adopting a jobs lens” (p. 138) – for development to take place jobs should be created with the involvement of state by setting industrial policy; 2) a redistribution of wealth due to widening inequalities between a working rich and the working poor (distributional justice via an incremental approach – recommending to be funded via progressive taxation of property, inheritance and wealth which are not directly related to individual effort or skills) – a movement of the wealth accumulated by the elite to those stricken by poverty created by inequalities generated based on sex, class, socio economic background, ethnicity and nationality, asserting that the problem in currency is “not
wealth creation but rather wealth distribution” (p. 208); 3) a basic threshold income for all in the form of social security in enabling flexibility and freedom for people; and 4) accounting for “social rates of return” (p. 201) as opposed to private rates of return (moving away from measuring economic gains to measuring societal and individual wellbeing).

In this process of evidence-based discussion, the authors propose the social capital theory as a mid-range theory with ambition, rejecting the widely acclaimed theory of human capital on learning and earnings. This is a promising start to addressing the challenges brought about by neo liberal views on education, labour, and earnings at large. Through this journey towards a new theory which encompasses the complexities and dynamics overlooked by the orthodox theory of human capital we can look forward to a research agenda in arriving at a solid action plan in executing the recommendations made by the authors and the new theory in addressing the current and future socioeconomic problems. This will free individuals of the mind trap of “assuming that life’s destiny is limited to getting a better paid job and social mobility” (p. 219) and that learning will ensure earning.

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