

Human Capital Theory

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Background

During the 1950s the main factors of production included physical capital, labour, land and management (Becker 1964). However, in the early 1960s it was difficult to explain the growth of the United States economy using the four traditional factors of production (Schultz 1961). An explanation for this was found by considering 'human capital', a new form of capital that included peoples' learning capacities, which are of comparable value to other resources involved in the production of goods and services (Lucas 1990). Since then, the Human Capital Theory (HCT) has been used to understand the broader economic decisions by individuals, including occupational choice, migration, health care, and mortality (Sobel 1982).

How it is acquired?

Human capital may be acquired formally in school and other learning institutions, or, informally, through on-the-job training (Becker 1993).

Individual benefits

HCT has been the dominant paradigm for the study of wage determination. Typically, HCT helps to explain how those investing in human capital are rewarded with higher life-time earnings (Preston 1997).

Organisational benefits

Organisations and societies accrue the positive results when human capital is effectively used (Schultz 1961). Becker (1993) distinguished general skills from specific skills. General skill training increases an individual's productivity to many organisations, while specific training mostly increases an individual's productivity within the organisation in which one is employed (Becker 1993).

Some limitations

Situated within the neoclassical frame of reference, the HCT presumes that job seekers have perfect information and are perfectly mobile. The assumption is that the labour market treats all potential labour equally based on their skills (Block 1990; Evans 1984). Thus, if an individual has invested in acquiring skills and qualifications, that person is rationally assumed to gain access to the labour market in a position representative of his or her skills and qualifications. However, this may not always be the case. The context and other capital, such as an individual's social capital, may also influence the labour market outcomes.

References and links

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