

## **Human Capital Theory: Implications for Educational Development in Nigeria.**

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### **Abstract**

The paper focused on human capital theory: implications for educational development in Nigeria. The belief that education is an engine of growth lies on the quality and quantity of education in any country. The paper opined that formal education is highly instrumental and necessary to improve the production capacity of a nation and opens up the rationality behind investment in human resources. Theoretical frameworks of human resources were identified and findings revealed that investments in education have positive correlation with economic growth and development. Criteria for the applicability and problems associated with the theory were identified and highlighted for the implications educational development. The paper recommends that there is need for a focused, responsive, functional and qualitative educational system and for education to contribute significantly to economic growth and development; it must be of high quality to meet the skill-demand needs of the economy. If human

capital theorists are correct that education is the primary cause of higher earnings, then it obviously makes sense to provide more education to low-income groups of the society to reduce poverty and degree of income inequality.

**Keywords:** Human capital, educational development, production, economic growth, Nigeria.

## **Introduction**

The essence of every nation's educational plan is to make her education system more relevant. One of these areas of relevance it aims at achieving is the generation of manpower needed to drive the nation's economy (Nzokurum and Awah, 2017). Education is an economic good because it is not easily obtainable and thus needs to be apportioned. Economists regard education as both consumer and capital good because it offers utility to a consumer and also serves as an input into the production of other goods and services.

As a capital good, education can be used to develop the human resources necessary for economic and social transformation (Olaniyan, 2008). The focus on education as a capital good relates to the concept of human capital, which emphasizes that the development of skills is an important factor in production activities. It is widely accepted that education creates improved citizens and helps to upgrade the general standard of living in a society. Therefore, positive social change is likely to be associated with the production of qualitative citizenry. This increasing faith in education as an agent of change in many developing countries including Nigeria, has led to a heavy investment in it.

The pressure for higher education in many developing countries has undoubtedly been helped by public perception of financial reward from pursuing such education (Eseyin, 2014). Generally, this goes with the belief that expanding education promotes economic growth. However, the paradox accompanying this belief is that despite the huge investment on education, there is little evidence of growth-promoting externalities of education in Nigeria (Olaniyan and Okemakinde, 2008).

### **Concept of Human Capital Theory**

Human capital theory provides a justification for a large public expenditure on education in developing and developed nations. This theory suggests that education or training raises the productivity of workers by imparting useful knowledge and skills, hence raising workers future income by increasing their life time earnings (Ramachandra, 2010).

The concept of human capital theory was first used by the classicalist economists like Alfred Marshal and Adam Smith (although developed by G.S. Berker, 1991) which stresses the significance of education and training as the key to participation in the near global economic order. Based on the opinions of Schultz (1971), Sakamota and Powers (1995) and Psacharopoulos and Woodhall (1997), human capital theory rests on the assumption that formal education is highly instrumental and even necessary to improve the production capacity of a population. The human capital theorist is of the view that an educated population is a productive population.

Human capital theory emphasizes how education increases the productivity and efficiency of workers by increasing the level of cognitive stock of economically productive human capability which is the product of innate abilities and investment in human beings. The provision of

formal education is seen as a productive investment in human capital, which the proponents of the theory have considered as equally or even more equally worthwhile than that of physical capital (Woodhall, 1997).

According to Babalola (2003), the rationality behind investment in human capital is based on three arguments:

- That the new generation must be given the appropriate part of the knowledge which has already been accumulated by previous generations
- That the new generation should be taught how existing knowledge should be used to develop new products to introduce new processes and production methods and social services
- That people must be encouraged to develop entirely new ideas, products, processes and methods through creative approaches.

Efforts to promote investment in human capital were seen to result in rapid economic growth for a society. Most economists agree that it is human resources of the nation not its capital or its material resources, which ultimately determine the character and pace of its economic and social development. Human resources constitute the ultimate basis of the wealth of nations. Capital and natural resources are passive factors of production, human beings are the active agencies who accumulate capital, exploit natural resources, build social, economic and political organizations and carry forward national development ( Almendarez, 2015).

### **Empirical Evidence of Human Capital Model**

Based on the significance of education, the concept of human capital has been brought to the

forefront of many discourses in the field of economic growth and development. Studies have shown that improvements in education accelerate productivity and contribute to the development of technology, thus improving human capital. More than anything else, it has been the spectacular growth in East Asia that has given education and human capital their current popularity in the field of economic growth and development. There are several ways of modeling how the huge expansion of education accelerates economic growth and development. The first is to view education as an investment in human capital. A different view of the role of education in the economic success is that education has positive externalities; educate part of the community and the whole of its benefits.

The idea that education generates positive externalities is by no means new. Many of the classical economists argued strongly for government's active support of education on the grounds of the positive externalities that society would gain from a more educated labour force and populace (Van Den Berg 2001). Smith (1976) reflects such progressive contemporary thought when he wrote that by educating its people, a society derives no inconsiderable advantage from their instruction. The more they are instructed, the less liable they are to the delusions of enthusiasm and superstition, which among ignorant nations frequently occasion the most dreadful disorders. Instructed and intelligent people are always more decent and orderly than ignorant ones. Smith views the externalities to education as important to the proper functioning not only of the economy but of a democratic society.

Another way of modeling the role of education in the growth and development process is to view human capital as a critical input for innovations, research and development activities. From this perspective, education is seen as an intentional effort to increase the resources needed for creating new ideas and thus, any increase in education will directly accelerate technological process. This approach adopts the assumptions of Schumpeter (1973) of imperfectly competitive product markets and competitive innovation which permits the process of generating technological progress. Education is seen as the input into the intentional and entrepreneurial efforts to create new technology and new products.

Odekunle (2001) affirms that investment in human capital has positive effects in the supply of entrepreneurial activity and technological innovation. However, Ayeni (2003) insists that education as an investment has future benefits in cash and in kind. Moving further, Ayara (2002) reported that education has not had the expected positive growth impact on economic growth in Nigeria. He outlined three points that could account for such results, which are:

- 1) educational capital has gone into privately remunerative but socially unproductive activities:  
or
- 2) there has been slow growth in the demand for educated labor: or
- 3) the education system has failed, such that schooling provides few (or non) skills.

### **Application of Human Capital Theory to Educational System**

Babalola (2003) opined that the contribution of education to economic growth and development occurs through its ability to increase the productivity of an existing labour force in various ways. However, economic evaluation of educational investment projects should take into account certain criteria according to (Psacharopolous, 1997). These include:

- 1) Direct economic returns to investment, in terms of the balance between the opportunity costs of resources and the expected future benefits;
- 2) Indirect economic returns in terms of external benefits affecting other members of society;
- 3) The private demand for education and other factors determining individual demand for education;
- 4) The geographical and social distribution of educational opportunities; and
- 5) The distribution of financial benefits and burdens of education.

Education plays a great and significant role in the economy of a nation, hence educational expenditures are found to constitute a form of investment. This augments individual's human capital and leads to greater output for society and enhanced earnings for the individual worker. It increases their chances of employment in the labour market and allows them to reap pecuniary and non-pecuniary returns giving them opportunities for job mobility (Ossai & Nwalado, 2017).

Education is a source of economic growth and development only if it is anti –traditional to the extent that it liberates, stimulates and informs the individual and teaches him how to make demands upon himself. Accordingly, a proper educational strategy would manifest itself in four major developments – producing capacities (Olaniyan &

Okemakinde, 2008). According to Bronchi (2003), the first is the development of a general trend favourable to economic progress. The reference is to social mobility, a general increase in literacy necessary for improved communication.

The second capacity emphasizes the development of complimentary resources for factors which are relatively plenty and substitutes for relatively scarce factors. The third capacity underscores the durability than most forms of non-human reproductive capital. This implies that a given investment in education tends to be more productive, other things equal, than some outlay on non-human resource. Finally, education is an alternative to consumption, for it transfers to round – about production of the resources that would otherwise be consumed now.

### **Implications of Human Capital Theory for Educational Development**

It has been proven that the human capital theory and educational systems work beautifully for the development of individuals and nations. However, there are implications involved, especially in relation to the differences in policies and expenditures in education. The human capital theory emphasized the need for policy makers to allocate significant resources to the expansion of educational systems. The central difference in the policy implications of the human capital model and the alternative model relates to the desirable level of public expenditure on education.

Many of the developing nations have thus realized that the principal mechanism for developing human knowledge is the education system. Thus, they invest huge sum of money on education not only as an attempt to impact knowledge and skills to individuals but also to impart values, ideas, attitudes and aspirations which may be in the nation's best developmental



interest (Olaniyan and Okemakinde). In addition to manpower planning needs, parents strongly feel that in an era of scarce skilled manpower, the better the education their children can get, the better are their chances of getting well- paid jobs. The poor often look at their children's education as the best means of escaping poverty. The concept of human resources has provided a useful bridge between the theoretical concerns of students of the developmental process and the practical requirements of assistance to planners (Agabi and Ogah, 2010).

It is also worth noting that the casual relationship between education and earnings has important implications for public policy. If human capital theorists are correct in arguing that education is the primary cause of higher earnings, then it obviously makes sense to provide more education to low income groups of the society to reduce poverty and the degree of income inequality.

### **Conclusion and Recommendations**

Since the purpose of a minimum standard is to offset the effects of poverty, appropriate subsidies could in principle achieve the same result without compulsion. The effectiveness of voluntary investment in human capital is often underrated because subsidies to human capital usually cover, at best only a portion of earnings forgone. If they cover all cost including those forgone, almost all children would continue to school through the age desired.

Nigeria is confronted by most of the problems that could limit the capacity of expansion in education to stimulate growth and development such as underemployment, low absorptive capacity, and shortage of professionals, regional imbalances and brain drain.

The persistence of many of the problems in spite of the various policy formulation and responses points to the need for a more focused responsive, functional and qualitative educational system. To contribute significantly to economic growth and development education must be of high quality and also meet the skill - demand needs of the economy.

It is not a noble achievement for any sector of the economy to exist for years only to make negligible contributions to economic growth, which is not commensurate with its life span and investment. In this case, there is need for more commitment by the authorities not to interfere with decisions such as curriculum or teacher's responsibilities. Parents should not wish to fulfill their life expectations in their children by selecting careers for them or by suggesting subjects that they should study. They should not also encourage or assist their children and wards to purchase certificates. Government, in its employment policies, should lay more emphasis on specialization and competence rather than paper qualifications and ill – gotten certificates.

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