

115382



WORKING PAPER

**ADAM SMITH ON EDUCATION AND INVESTMENT
IN HUMAN CAPITAL**

P.G.K.Panikar

**Centre for Development Studies
Ulloor, Trivandrum 695011
(India)**

CENTRE FOR DEVELOPMENT STUDIES



WORKING PAPER NO.45

ADAM SMITH ON EDUCATION AND INVESTMENT
IN HUMAN CAPITAL

P.G.K.Panikar

Centre for Development Studies
-Ulloor, Trivandrum 11

November, 1976

ADAM SMITH ON EDUCATION AND INVESTMENT IN HUMAN CAPITAL

"Those parts of education, it is to be observed, for the teaching of which there are no public institutions, are generally the best taught."

— The Wealth of Nations

Introduction

In recent times economists have identified education as a major factor contributing to economic development and growth. In his pioneering study on investment in human capital, Theodore Schultz has credited Adam Smith with the genesis of this concept.¹ Adam Smith treated the acquired and useful abilities of the members of society as one category of fixed capital. According to him "the acquisition of such talents, by the maintenance of the acquirer during his education, study or apprenticeship, always costs a real expense, which is capital fixed and realised, as it were, in his person."² He compared the improved dexterity of a workman to "a machine or instrument of trade which facilitates and abridges labour, and which though it costs a real expense, repays that expense with a profit."³ These succinct observations of Smith in Book II of the Wealth of Nations, on human abilities

-
1. T.W.Schultz, 'Investment in Human Capital', in M.Blaug (ed.) Economics of Education, Vol.I, p.15: See also; Frederic Harbison and Charles A. Myers, Education Manpower and Economic Growth, Oxford & IBH Publishing Company, 1964, p.3.
 2. Adam Smith, The Wealth of Nations, (Everyman's Library Edition) Vol.I, p.247.
 3. Loc.cit.

acquired through education which entail certain real cost and which facilitate labour, would appear to contain in an embryonic form all the essential dimensions of the concept of human capital as developed by Theodore Schultz and others. However, when he comes to deal with education, which is the operational part of human capital formation, in Book V of the Wealth of Nations, Smith strikes a different note. Smith's pronouncements on several aspects of education, such as the institutional arrangements, financial provision, the role of the sovereign or state, the scope and cover of education for the common people etc. in this latter part of his magnam opus do not seem to warrant the perceptive insights and originality generally attributed to him.

Smith's views on Education

1. Institutional Framework

In Adam Smith's conception, education was another industry. Under the ideal arrangement, there is consumer sovereignty: consumers are free to choose any product, the scholars are free to choose their masters on the basis of their reputation for scholarship and diligence. The industry would do best under conditions of free competition. Only those teachers who are able to attract a sufficient number of students to them can survive in the profession. This situation stimulates competition among the masters who "are all endeavouring to jostle one another out of employment [and]

oblige every one to execute his work with a certain degree of exactness."⁴

2. Financing Education

The basis of this competition is that the teacher is supported with the free or "honorary" which the scholar pays. Under the ideal system envisaged by Adam Smith, education is self-financing. "The institutions for the education of the youth may furnish a revenue sufficient for defraying their own expense."⁵ Here, the students have to bear the entire cost of their education; that is to say, only those who can afford to pay for the services of the teachers and meet the other costs of education shall have its benefits.

3. Role of the State

In keeping with his general political philosophy, viz., that government was best which governed least, Adam Smith would limit State participation in the education of youth to the irreducible minimum. The model which Smith upholds before us with a sense of nostalgia is the educational system in ancient Greece and Rome where the schools were not supported by ^{the} public. "In the early ages both of the Greek and Roman republics, the other parts of education [besides philosophy] seem to have consisted in learning to read, write, and account according to the arithmetic of the times.

4. Adam Smith, The Wealth of Nations, Vol.II, (Everyman's Library Edition), pp.245-246.

5. Ibid., p.245.

The accomplishments the richer citizens seem frequently to have acquired at home by the assistance of some domestic pedagogue, who was generally either a slave or a freed-man; and the poorer citizens, in the schools of such masters as made a trade of teaching for hire. Such parts of education, however, were abandoned altogether to the care of the parents or guardians of each individual. It does not appear that the State ever assumed any inspection or direction of them."⁶ Nevertheless, or perhaps because of the non-intervention from the State, the system delivered the goods. Smith asserts that "the abilities, both civil and military, of the Greeks and Romans will readily be allowed to have been at least equal to those of any modern nation."⁷ What mechanism ensured such brilliant achievements in the field of general education? "Masters, however had been found, it seems, for instructing the better sort of people among those nations in every art and science in which the circumstances of their society rendered it necessary or convenient for them to be instructed. The demand for such instruction produced what it always produces - the talent for giving it; and the emulation which an unrestrained competition never fails to excite, appears to have brought that talent to a very high degree of perfection."⁸

4. Institutions supported by Public Endowments

Adam Smith was opposed not only to state intervention in education, but also to any form of institutionalisation of the educational system. He makes a vitriolic attack on the Universities and schools supported by public endowments. In this context he

6. Ibid, p.259

7. Ibid. p.261

8. Loc. cit.

raises some quite relevant questions: "Have those public endowments contributed in general to promote the end of their institution? Have they contributed to encourage the diligence and to improve the abilities of the teachers? Have they directed the course of education towards objects more useful, both to the individual and the public, than those to which it would naturally have gone of its own accord?"⁹ Smith's answers to these questions are categorically in the negative.

Smith's main criticism against the educational institutions supported by public endowments is that the system adversely affects the incentives of teachers. "The endowments of schools and colleges have necessarily diminished more or less the necessity of application in the teachers. Their subsistence, so far as it arises from their salaries, is evidently derived from a fund altogether independent of their success and reputation in their particular professions."¹⁰ The image of the professors and tutors in the Universities which Adam Smith paints with such flourish and meticulous care for details turns out to be one which, though very interesting, is far from complimentary to the members of the profession. Adam Smith argues that when the teacher is prohibited from receiving any fee from the students and his salary constitutes the sole source of income, his interest is set directly in opposition to his duty. "It is the interest of every man to live as much at his ease as he can; and if his emoluments are to be precisely the same, whether he does or does not perform some very laborious duty, it is certainly his interest, at least as interest is vulgarly understood, either

9. Ibid., p.245.

10. Ibid., p.246.

to neglect it altogether, or if he is subject to some authority which will not suffer him to do this, to perform it in as careless and slovenly a manner as that authority will permit."¹¹ Adam Smith gives a fascinating account of the great ingenuity shown by the University teachers in evading their duties. The teacher stops any level-headed collusion to make a common cause, to be indulgent to one another's neglect, obsequiousness to the will of his superiors and other expedients.¹²

Adam Smith is equally unsparing on the Universities of his time. According to him, there was little teaching in the Universities. "In the University of Oxford, the greater part of the public professors have, for these many years, given up altogether even the pretence of teaching."¹³ Moreover, what little was being taught was obsolete and irrelevant. He remarks that "the improvements which, in modern times, have been made in several different branches of philosophy had not, the greater part of them, been made in Universities, though some no doubt have. The greater part of Universities have not even been very forward to adopt those improvements after they were made; and several of those learned societies have chosen to remain, for a long time, the sanctuaries in which exploded systems and obsolete prejudices

11. Ibid. p.246

12. Smith's description of these expedients one cannot resist the temptation to reproduce in full: "Several different expedients, however, may be fallen upon which will effectually blunt the edge of all these incitements to diligence. The teacher, instead of his explaining to his pupil himself the science in which he proposes to instruct them may read some book upon it; and if this book is written in a foreign and dead language, by interpreting it to them in their own; or what would give him still less trouble by making them interpret it to him, and by now and then making an occasional remark upon it, he may flatter himself that he is giving a lecture. The slightest degree of knowledge and application will enable him to do this without exposing himself to contempt or derision or saying anything that is really foolish, absurd or ridiculous." Ibid., p.249.

13. Ibid., p.247

found shelter and protection after they had been hunted out of every other corner of the world. In general, the richest and best endowed Universities have been the slowest in adopting these improvements, and the most averse to permit any considerable change in the established plan of education."¹⁴ As a consequence the Universities had no functional use, by way of disseminating useful and relevant knowledge; the question of extending the frontier of knowledge by the Universities did not arise when they were even slow to adopt improvements already made elsewhere. True, they attracted into their fold gentlemen and men of fortune of these days. Why? Smith's sarcastic observation is that "no better method, it seems, could be fallen upon of spending, with any advantage, the long interval between infancy and that period of life at which men begin to apply in good earnest to the real business of the world, the business which is to employ them during the remainder of their days."¹⁵

5. Education of the Common People

Although Adam Smith was allergic to government intervention in the educational system, he recognised that the attention of government was necessary as far as education of the common people was concerned. The case for public attention in the education of the masses rested on a number of points. On the one hand, with the progress of division of labour, the employment of the far greater part of those who live by labour comes to be confined to a very

14. Ibid., p.256.

15. Ibid.; p.257.

few simple operations which leads to a progressive degeneration of the mental faculties of the great body of the people. "The man whose whole life is spent on performing a few simple operations, of which the effects are perhaps always the same or very nearly the same, has no occasion to assert his understanding or to exercise his invention in finding out expedients for removing difficulties which never occur. He naturally loses, therefore, the habit of such exertion, and generally becomes as stupid and ignorant as it is possible for ^a human creature to become.....But in every improved and civilised society this is the state into which the labouring poor, that is, the great body of the people must necessarily fall, unless government takes some pains to prevent it." On the other hand, unlike the people of some rank and fortune, who have the time and means to acquire sufficient education before they enter upon their normal profession, the common people have little time for education. "Their parents can scarce afford to maintain them even in infancy." Moreover, the society stood to gain from imparting elementary education to the inferior ranks of people. "Though the state was to derive no advantage from the instruction of the inferior ranks of people, it could still deserve its attention that they should not be altogether uninstructed.....The more they are instructed the less liable they are to the delusion of enthusiasm and superstition, which, among ignorant nations,

16. Ibid. p.264.

frequently occasion the most dreadful disorders. An instructed and intelligent people, besides, are always more decent and orderly than an ignorant and stupid one. They feel themselves, each individually, more respectable and more likely to obtain the respect of their lawful superiors, and they are therefore more disposed to respect their superiors, They are more disposed to examine, and more capable of seeing through, the interested complaints of faction and sedition, and they are upon that account, less apt to be misled into any wanton or unnecessary opposition to the measures of government."¹⁸

Smith has also indicated the scope of education for the common people. Unlike in the case of people of some rank and fortune, the recipe for the common people consists of the three R's, what Smith calls "the essential parts of education."¹⁹ He proceeds to spell out how this can be organised. "For a very small expense the public can facilitate, can encourage, and can even impose almost the whole body of the people the necessity of acquiring those most essential parts of education.....The public can facilitate this acquisition by establishing in every parish or district a little school, where children may be taught for a reward so moderate that even a common labourer may afford it."²⁰

17. Ibid. p.236.

18. Ibid. p.259.

19. Ibid. p.266.

20. Ibid. p.266.

Summary and Conclusion

To sum up, Adam Smith conceived of an educational system under which the buyers and sellers of education dealt directly with each other without state intervention. In his ideal system, the masters would support themselves on the fee which the scholars paid. Observably, only those who could afford to bear the cost of education were entitled to its benefit. However, for the common people, Smith envisaged setting up of small schools under the aegis of public authorities where the essentials of education -- reading, writing and arithmetic -- would be imparted.

The foregoing review leads us to the conclusion that the concept of education underlying Adam Smith's scheme for the "Education of Youth" as spelled out in Book V of the Wealth of Nations is radically different from the concept inherent in human capital formation implicit in the terse observations on "the Division of Stock" in Book II; in his scheme of things, institutionalised education has far less dynamic role. Thus for the vast body of the common people education is intended to make them orderly, peaceful and law-abiding citizens. Even in the case of the minority born with rank and fortune who can afford the services of better teachers, there is no indication, either explicit or implicit, of their education fructifying in useful abilities. As Lowman observes, Smith was concerned with education for the betterment of man and not for the creation of human resources.²¹ The suggestion that Smith anticipated the

21. M.J. Lowman, 'Human Investment Revolution in Economic Thought', Economics of Education, Vol. I, op.cit., pp.103-104.

See also, Rudolph C. Elitz, 'Education, the Nature of Man, and the Division of Labour', Readings in the Economics of Education, UNESCO, Paris, 1971, p.38.

the recent develops in the realm of investments in human capital seems to be another example of the tendency on the part of some economists to view the author of the Wealth of Nations as both the Adam and the Smith of economic science.

Howsoever well-founded Smith's observations on the performance of the educational institutions of his time supported with public endowments might have been, the policy conclusions he has drawn are unwarranted and unacceptable. An educational system which is self-financing, non-institutionalised and non-formal, as conceived by him, may have suited the needs and value systems of ancient Greece and Rome; but it is not only unequal to the requirements of a modern society; but is also highly inequitable.

November 6, 1976.

F.G.K. Panikar