

Summer School – Higher School of Economics - June 2016

Higher Education from an Economic Perspective – With special emphasis on the Role of Human Capital

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The rising influence of Economics in Social Issues

Economics and Social Sciences:

- A modern issue – professionalization and clarification of boundaries among Social Sciences;
- Competitive intellectual claims – evolving boundaries;
- Advantages of Economics – age, academic institutionalization, formalism, value-free;
- Past attempts of redefining boundaries and object of study (Smith, S. Mill, Marx, Comte, Pareto, Weber, Schumpeter);
- Growing separation between 1930s-1950s – debates in the 1930s about economic imperialism, changes in economics (rising orthodoxy);

Economics and Social Sciences:

- **Changes in postwar economics: formalism; abstraction; deductive reasoning; diminishing methodological and analytical pluralism;**
- **1950s-1980s: little interaction, caricature, few exceptions (Harvard in the 1950s, Becker, Hirschman, Arrow, Schelling), Rational choice sociology;**
- **The development of applied fields: Education, Health, etc**
- **Generations of economics imperialism:**
- **Old-style economics imperialism (Becker) regarded with skepticism by economists up to late 1980s;**

Economics and Social Science:

- New-style economics imperialism: informational asymmetries, transaction costs, and other market imperfections, introduction of some historical and institutional elements (New institutional economics);
- Varieties of economics imperialism (e.g. Freakonomics, etc);
 - confrontation vs. integration;
- The “superiority” of Economics – intellectual practices and networks;
- Blurring of boundaries: Economics turning inwards and isolating itself OR beginning of a dialogue between Economics and other Social Sciences;

The Growing Influence of Economics:

- **Basic concepts – cost-benefit, incentives, competition and choice, entrepreneurship;**
- **Methods and tools of investigation;**
- **Maximizing, rational, individual behavior;**
- **Stress on efficiency and equilibrium;**
- **Rigour, testing, evidence;**
- **Signs of intellectual success – capacity to influence others, substitution, adoption of tools by others, multiple examples of applications;**

Higher Education from an Economic Perspective – some basic issues

Economic Relevance of Higher Education:

- **Economic effects**
- **Economic motivations**
- **Use of resources**

Economics is about:

- **Human needs and material possibilities**
- **The problem of scarcity**
- **What, how much, how and to whom produce**
- **Need to make choices**

Basic Assumptions in Economics:

- **Methodological Individualism**
- **Self-interested individuals**
- **Rational and consistent choices**
- **Abstraction and deductive reasoning**

Basic Concepts in Economics:

- **Market mechanism**
- **Opportunity cost**
- **Efficiency**

Market Mechanism:

- Allocation of resources based on prices and Supply-Demand
- Role of self-interest and incentives
- Law of supply and demand

Opportunity Cost:

- **Limited resources**
- **Choosing between alternatives**
- **Value of next best alternative that the decision forces us to give up**

Efficiency:

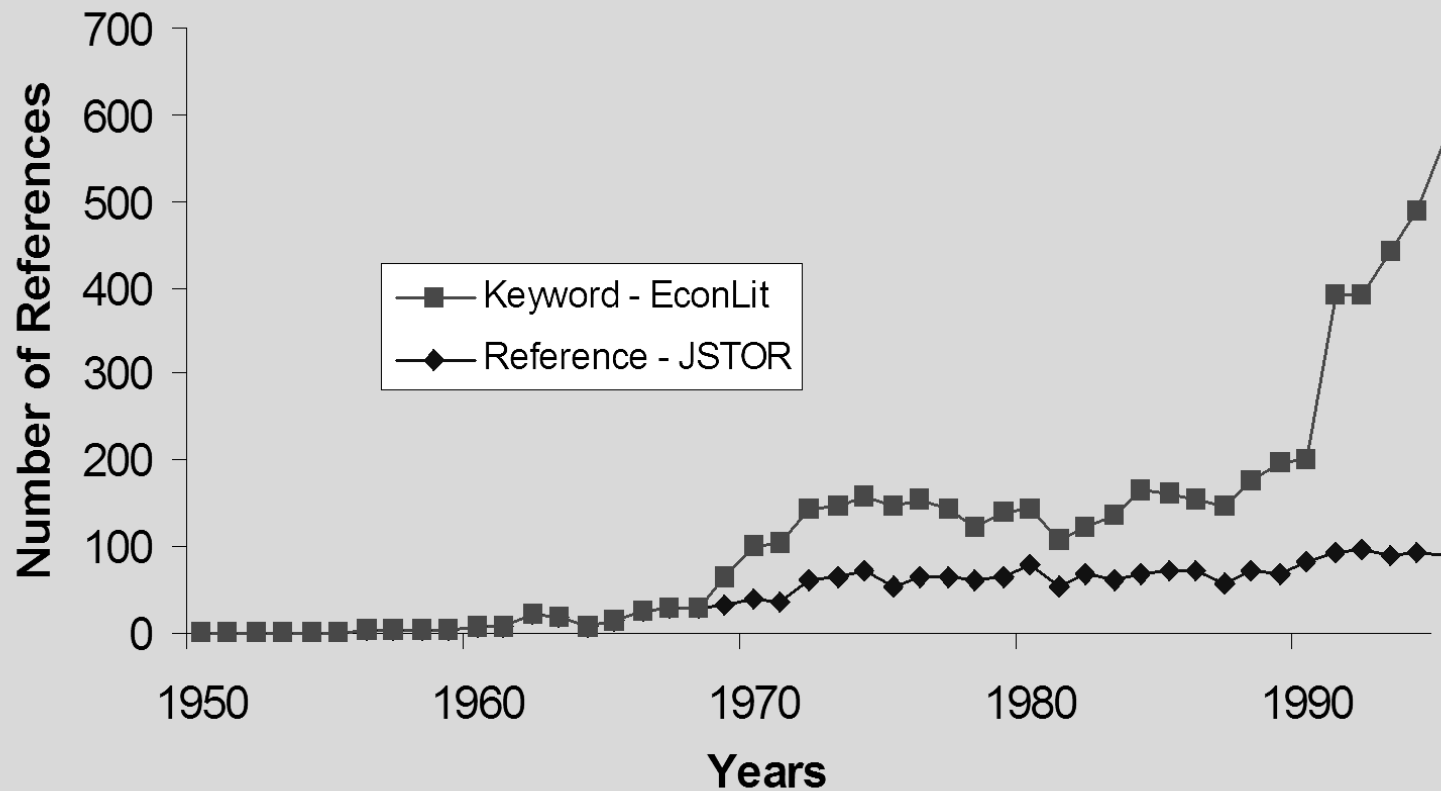
- **Absence of waste**
- **Use of all available input to produce maximum output that current technology allows**
- **Technical and Allocation efficiency**

Seeing Education as Human Capital

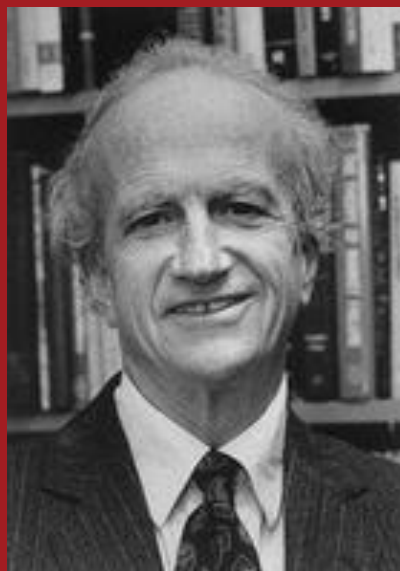
Growing interest of Economists on Education:

- **Economic growth and development**
- **Income distribution and inequality**
- **Analysis of the labour markets**
- **Expansion of the economics discipline**
- **Development of human capital theory**

Number of Articles analysing Human Capital issues in Economic Journals



Pioneers in Human Capital Theory



Jacob Mincer (1922-2006) – Gary Becker (1930-2014) – T. W. Schultz (1902-1998)

Education regarded as Human Capital:

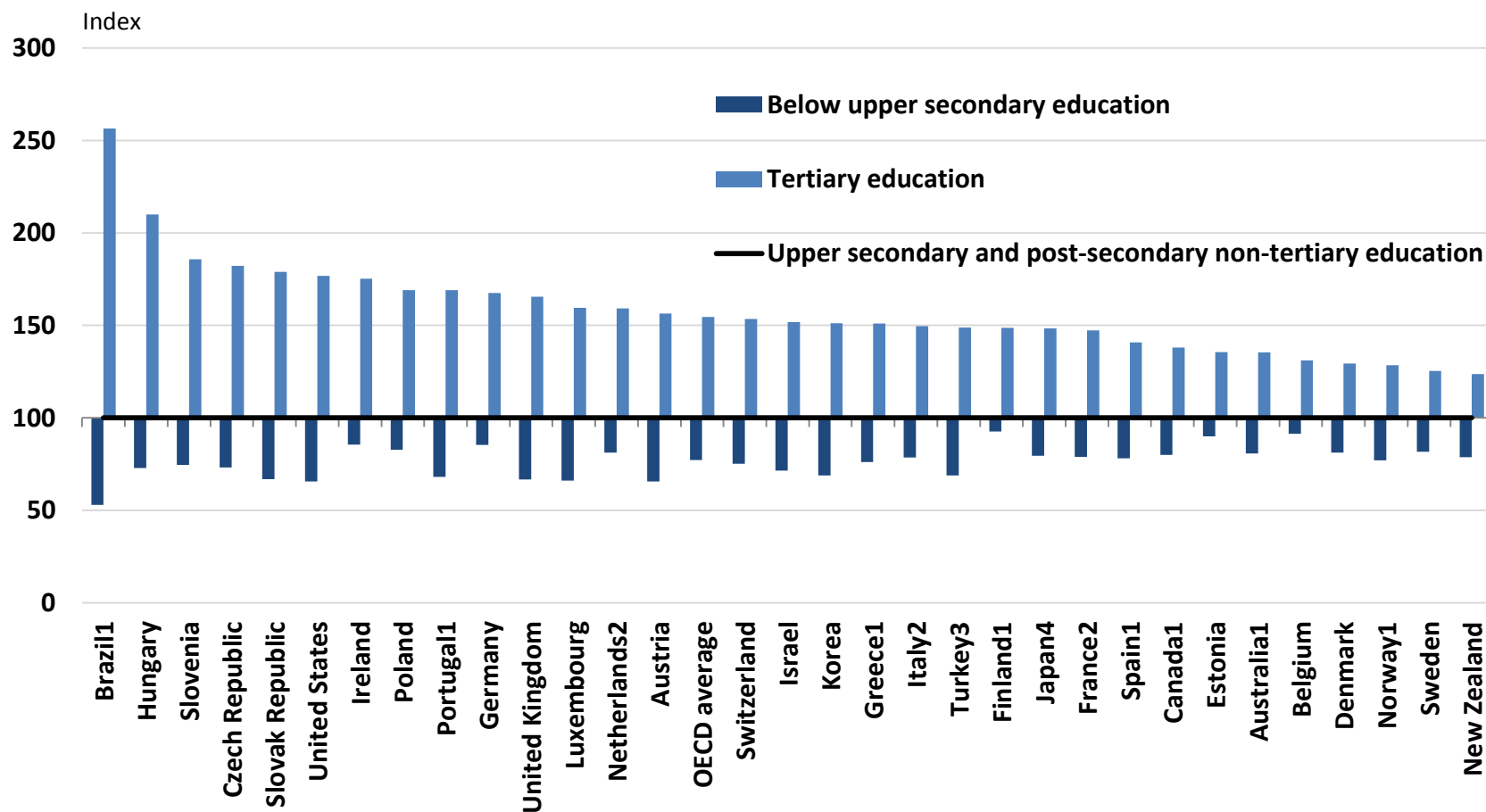
- Higher Education becomes an individual and social Investment
- Individuals and societies spend resources in higher education not only due to consumption but also to investment motivations
- Looking at Higher Education from an economic perspective – effects, rationales, motivations, behaviour, objectives,...

Qualifications and Employment's Structure

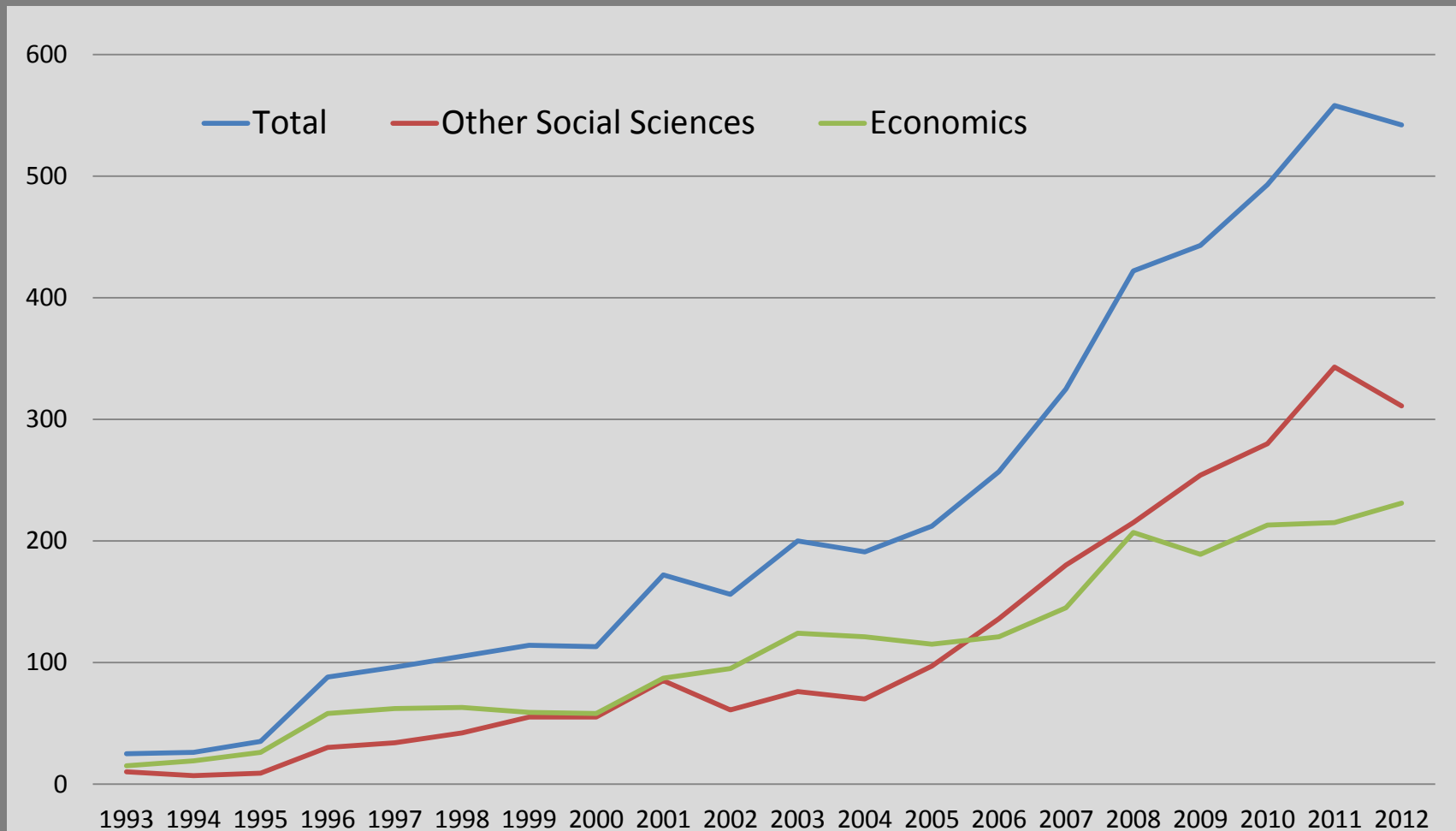
UK	1981	1999	2005	2010
KNOWLEDGE WORKER	27	32	39	41
IN-PERSON SERVICES	17	21	22	22
ROUTINE PRODUCTION	56	47	39	37

USA				
KNOWLEDGE WORKER	22	24	29	31
IN-PERSON SERVICES	44	45	45	44
ROUTINE PRODUCTION	34	31	26	25

Relative earnings from employment among 25-64 year-olds, by level of educational attainment (2010 or latest available year)



Number of Publications in the Human Capital – (title or keywords)



Human Capital and Other Social Sciences:

- **Inadequacy - preeminence given to economic motives, rationality, optimizing behavior;**
- **Debasing the purposes of Education - Weakening or Strengthening the political and social support for education?**
- **Mass Education (especially Higher Education);**
- **The social and political roles of Education (inequalities, reproduction, elites, values, conformity);**

Human Capital and its influence in Policy-making

- The postwar expansion of educational systems;
- Education also becoming a major area of interest also for Int. Org. (WB, OECD, UNESCO, etc);
- The controversies about the economic analysis and purposes of education;
- Cost-benefit analysis, rationality, incentives, efficiency;
- Main changes post-1980s - Everything becomes an investment, Education as part of Economic arguments;

Reflecting about the Implications of an Economic Analysis of Higher Education

Emphasising the Economic Effects of Education :

- **Significant productivity and income effects**
- **Employability and Income**
- **Quantity vs. quality**
- **Complementarity between types of human capital**
- **Long-term effects in the labour market**
- **Technology and skill-bias**

Reconceptualizing the HE Sector:

- **Can HEI be considered a firm?**
- **Is Higher education a business?**
- **Who are HE customers?**
- **Do we have a higher education demand and supply?**
- **What is the price of higher education services?**

Higher Ed as an economic activity:

- **Produces and sells educational services**
- **Their products have a price**
- **Buys inputs to obtain products**
- **Subject to technological/economic constraints**

Higher Ed as a peculiar business:

- **Multi-purpose units**
- **Nonprofit dimension**
- **Price loosely related w/ marginal cost (below)**
- **Duality of customers**
- **Customer-input technology**
- **Controlling supply and choosing customers**
- **Variability of the production function**

Potential problems:

- (Ir)rationality of the agents;
- Quantity and Quality of Information available to students, HEIs, and Regulators;
- Increasing disparity among graduates (averages and dispersions);
- Financial specificities;

Higher Education as Human Capital:

- Higher Education becomes an individual and social Investment
- Motivations for HE's expansion - Individuals and societies spend resources in higher education not only due to consumption but also to investment motivations;
- Rational Economic Decisions - Individual and Social Decisions based on Cost-benefit analysis;
- Funding Sources and Mechanisms - Who benefits and who should pay?
- Reconceptualization of HEIs – Types of Relevance: effects, behaviour, objectives,...

Thank you!

Questions? Comments? Complaints?...

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