

Editorial: Human Capital and Human Capability

AMARTYA SEN¹

Harvard University, Cambridge, Massachusetts, U.S.A.

I would like to comment on the connection as well as contrast between two distinct but related areas of investigation in understanding the processes of economic and social development: the accumulation of “human capital” and the expansion of “human capability.” The former concentrates on the agency of human beings — through skill and knowledge as well as effort — in augmenting production possibilities. The latter focuses on the ability of human beings to lead lives they have reason to value and to enhance the substantive choices they have. The two perspectives cannot but be related since both are concerned with the role of human beings, and in particular with the actual abilities that they achieve and acquire.

Given her personal characteristics, social background, economic circumstances, etc., a person has the ability to do (or be) certain things that she has reason to value. The reason for valuation can be *direct* (the functioning involved may directly enrich her life, such as being well-nourished or being healthy), or *indirect* (the functioning involved may contribute to further production, or command a price in the market). The human capital perspective can — in principle — be defined very broadly to cover both types of valuation, but it is typically defined — by convention — primarily in terms of indirect value: human qualities that can be employed as “capital” in production in the way physical capital is. In this sense, the narrower view of human capital approach fits into the more inclusive perspective of human capability which can cover both direct and indirect consequences of human abilities.

Consider an example. If education makes a person more efficient in commodity production, then this is clearly an enhancement of human capital. This can add to the value of production in the economy and also to the income of the person who has been educated. But even with the same level of income, a person may benefit from education, in reading, communicating, arguing, in being able to choose in

a more informed way, in being taken more seriously by others, and so on. The benefits of education, thus, exceeds its role as human capital in commodity production. The broader human-capability perspective would record — and value — these additional roles. The two perspectives are, thus, closely related but distinct.

The significant transformation that has occurred in recent years in giving greater recognition to the role of “human capital” is helpful for understanding the relevance of the capability perspective. If a person can become more productive in making commodities through better education, better health, and so on, it is not unnatural to expect that she can also directly achieve more — and have the freedom to achieve more — in leading her life. Both perspectives put humanity at the center of attention.

Altogether, this involves, to a great extent, a return to an integrated approach to economic and social development championed particularly by Adam Smith (both in *The Wealth of Nations* and in *The Theory of Moral Sentiments*). In analysing the determination of production possibilities, Smith emphasized the role education as well as division of labor, learning by doing, and skill formation. The development of human capability in leading a worthwhile life as well as in being more productive is quite central to Smith’s analysis of “the wealth of nations.”

Indeed, Adam Smith’s belief in the power of education and learning was peculiarly strong. Regarding the debate that continues today on the respective roles of “nature” and “nurture,” Smith was an uncompromising “nurturist,” and this fitted in with his massive confidence in the improbability of human capabilities:

The difference of natural talents in different men is, in reality, much less than we are aware of; and the very different genius which appears to distinguish men of different professions, when grown up to maturity, is not upon many occasions so much the cause, as the effect of

division of labour. The difference between the most dissimilar characters, between a philosopher and a common street porter, for example, seems to arise not so much from nature, as from habit, custom, and education. When they come into the world, and for the first six or eight years of their existence, they were, perhaps, very much alike, and neither their parents nor play-fellows could perceive any remarkable difference.²

It is not my purpose here to examine whether Smith's emphatically "nurturist" views are right, but it is useful to see how closely he links the productive abilities to the ability to lead different types of lives. That connection is quite central in seeing human capital in the broader context of the human-capability perspective.

There is, however, also a crucial difference between the two approaches — a difference that relates to some extent to the distinction between means and ends. The acknowledgement of the role of human qualities in promoting and sustaining economic growth — momentous as it is — tells us nothing about *why* economic growth is sought in the first place. If, instead, the focus is, ultimately, on the expansion of human freedom to live the kind of lives that people have reason to value, then the role of economic growth in expanding these opportunities has to be integrated into that more foundational understanding of the process of development as the expansion of human capability to lead freer and more worthwhile lives.³

The distinction has a significant practical bearing on public policy. While economic prosperity helps people to lead freer and more fulfilling lives, so do more education, health care, medical attention, and other factors that causally influence the effective freedoms that people actually enjoy. These "social developments" must directly count as "developmental," since they help us to lead longer, freer, and more fruitful lives, *in addition* to the role they have in promoting productivity or economic growth or individual incomes. (To a considerable extent the *Human Development Reports* of the United Nations Development Programme have been motivated by the need to take a broader view of this kind.) The use of the concept of "human capital," which concentrates only on one part of the picture (an important part, related to broadening the account of "resources"), is certainly an enriching move, but it needs supplementation. This is because human

beings are not merely means of production (even though they excel in that capacity), but also the end of the exercise.

Indeed, in arguing with David Hume, Adam Smith had the occasion to emphasize that to see human beings in terms of their usefulness only is to slight the nature of humanity:

....it seems impossible that the approbation of virtue should be of the same kind with that by which we approve of a convenient or a well-contrived building, or that we should have no other reason for praising a man than that for which we commend a chest of drawers.⁴

Despite the usefulness of the concept of human capital as a productive resource, it is important to see human beings in a broader perspective than that of human capital (breaking the analogy with "a chest of drawers"). We must go *beyond* the notion of human capital, after acknowledging its relevance and reach. The broadening that is needed is additional and cumulative, rather than being an alternative to the "human capital" perspective.

Finally, it is important to take note also of the instrumental role of capability expansion in bringing about *social* change (going well beyond *economic* change). Capability serves as the means not only to economic production (to which the perspective of "human capital" usually points), but also to social development. For example, as various empirical studies have brought out, expansion of female education may reduce gender inequality in intrafamily distribution and also help to cut down fertility rates. Expansion of basic education may also improve the quality of public debates. These instrumental achievements may be ultimately quite important even though the instrumental role involved is not that of a factor of production in the making of conventionally-defined commodities.

In looking for a fuller understanding of the role of human capabilities, we have to take note of:

- their direct relevance to the well-being and freedom of people;
- their indirect role through influencing economic production; and
- their indirect role through influencing social change.

The relevance of the capability perspective incorporates each of these contributions, and the different contributions relate closely to each other.

NOTES

1. The analysis presented here has been more fully explored in my lectures as Presidential Fellow at the World Bank on "Social Justice and Public Policy" in the Fall of 1996 (to be published).

2. Smith, 1776 (Smith, 1976, pp. 28–29).

3. I have tried to discuss this issue in Sen (1983) and Sen (1985).

4. Smith 1790 (Smith, 1975, p. 188).

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