

The Necessity of the Development of the Human Capital Concept

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Abstract

Human Capital is considered an investment, but of a special and qualitative kind. We emphasize that there are levels of defining the concept: investments in health, education, training and specializing, and the upper level, the stock of skills, talent, knowledge, embodied in the human personality as a participant to the economic, social, cultural, activities; micro and macro approaches.

In this period, we can speak about a global overview regarding the two or more levels of human capital. This is mostly pointed when discussing the educational and the health capital and, on the other hand, the biological capital.

We have to understand the concept in the inter-relation between the two levels and with the business and natural environments. Important is the causal chain in the construction of Human Capital: investments in health care and education → the impulse to ensure the formation and the modeling of the capabilities, skills and other specific biological stocks → the effective action of labour power, creating new values added → economic development within a structure (in our case, EU).

Keywords: *human capital, investments, factor of production, human capabilities, skills, productivity.*

General approach

The new economic theories, elaborated during the past half century, led to the improvement of the economic practice and the development of the entire Economics corpus. The theory we are focused on as regards this analysis was conceived by economists associated to the famous School of Chicago based on the principles of neoclassical economic theory.

The scholars that contributed to the development of human capital theory as we know it in our days during 1950 years were George J. Stigler, Theodore W. Schultz and Gary S. Becker. Although the concept of human capital is used in a

paper published by Jacob Mincer in 1958 in volume 66 of *Journal of Political Economy* entitled “Investment in Human Capital and Personal Income Distributions”, in the economic literature is considered *Th. W. Schultz*’s paper, “Investment in Human Capital” published in 1961 in volume 51 of *American Economic Review* as the fundamental paper that initiated the new theory in USA strengthening and completed by the monographic writing published in 1964 by G. Becker and entitled *Human Capital: Theoretical and Empirical Analysis with Special Reference to Education*.

In the referenced paper, Schultz was interested in the second factor of production called labor or “human capital”.

Thus, in the content of “human capital” notion, are included: the expenses done with any form of teaching, financing of health care domain, of scientific research, for durable learning that shape the complexity of human personality by accumulating the stock of aptitudes, talents, knowledge, abilities needed by the individual in order to produce economic value by his/her work. In one word resumed: *the investments*.

Under these circumstances, there are minimum two planes that shape the concept of human capital and give to it complexity and priority among the production factors by stimulating any activity in society that delivers the new added value and a permanent innovation.

The original and the new conception of this theory is about taking into consideration besides the fixed capital elements (immobilized assets) and the financial actives, *the human resource*, seen as another element of capital with the capacity to produce incomes. The salary that is the income of this production factor is managed by the worker that obtained benefices connected with his investment. We can advance the idea that the theory discussed is the result of the statement made by Samuelson in his famous *Economics* that “the human being is more than a merchandise”. We must take into account the activity of education and training, of human investment in general, this action being a priority in the developing countries as Th. Schultz requested. What is the human investment? This is the situation when a human entity compares the present spending done for education with the future benefices obtainable and chooses, by using a rational process, the best manner to do it. Therefore, we have a modality of approaching individual selections done for training, health, information, seeking of jobs, in the spirit of the neoclassical vision, all the investment activity in human capital being efficient as long as the marginal incomes are higher or at least equal with the marginal spending.

The Necessity of the Development of the Human Capital Concept

To speak about Gary Becker's activity is to shape the rational behavior of the individual in taking decisions that affect the life and status in the society. The reasoning capacity of every human being depends on the global phenomena reducibility of individual behaviors for understanding these, the way in which every individual is assembling all he perceives and constructs in his mind about the surrounding environment. In this context, Gary Becker's researches underlie different human activities starting from decisions taken inside the family in the case of marriage and divorce, continuing with drug trade and especially violence causing death. In the last case, the murderer is comparing the expenses and the incomes of his action, for example the nature of the material payoff and the chances to be caught red-handed.

Economics is transformed in a holistic theory of human factor behavior leaving very little space for other social sciences as Anthropology, Sociology and Psychology.

The revealing of the concept

Smith is the first one who, in his reference work of *Wealth of Nations*, is surprising the structural element in decomposition of the fixed capital, that form of capital that brings income or profit without changing the owner, exactly as "capacities gained and used by all inhabitants".¹ The Scottish author sees this form of capital as representing the dexterities and abilities on physical and intellectual order that are obtained using education and training regarding the working place. *We are now in the perspective on the second level of individual manifestation at the workplace and in society.*

Karl Marx (1818-1883), another classical author in the economic field, introduces the concept of *labor force power* in the sixth chapter of the first volume of his master work of *Capital*. This defines the concept in the manner that "the working force and the working capacity represent an aggregate of these mental and physical abilities of the human being and that are manifested in producing some usage value".²

The significance of the concept analyzed in the case of Karl Marx is done by putting in evidence the differences done regarding the terms of concrete work and abstract work, this one being seen as an expense in the physiological sense of some

¹ Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, An electronic classics series publications, <http://www2.hn.psu.edu/faculty/jmanis/adam-smith/Wealth-Nations.pdf>, accessed January 19, 2012.

² Karl Marx, *Capitalul* (Capital), vol. I (Bucharest: Editura de stat pentru literatură politică, 1957), 196.

quantity of muscles, nerves, and brain cells. This second term highlighted by Marx has some similarities with the concept of human capital in the sense that the added value in the production activity is done using the worker's abilities, dexterity, physical force and specific intelligence taking into consideration all the elements presented as making the capital of an individual highlighted when he is selling his labor work to the contractor.

The term of "*human capital*" was put in circulation by the classical author Sir Arthur Cecil Pigou (1878-1959). This one points the resemblance between investment in the human capital and in the material capital.

Regarding the elaboration of "wealth economy", Pigou³ describes a direct link between the level of prices and real salaries, action that entered in literature as the "Pigou effect". The essence is in stimulating the labor occupation generated by the real sum of money available for consumers and the dropping of prices.⁴

Thus, this is one of the processes that the classical and neoclassical model took into consideration of the equilibrium in full employment by dropping the real value of salaries. As we can see, the accent of the analysis is put on the first level of the approach that deals with the importance of investment in the labor that contributes to the welfare in the society.

We stated that the last remarkable contributions to the analysis of the concept debated emerged from The Chicago School and are made by Jacob Mincer, Th. Schultz, and especially Gary S. Becker that was rewarded by the Royal Bank of Sweden with the Nobel Prize for Economics in the year 1992. Continuing Pigou's idea and developing it on the first level approached, Mincer associated the notion of human capital to an investment realized through education, training, assistance and medical care and, under these circumstances the accomplishing of every individual depends on this stock of money and non-money invested in human personality. Human capital is considered to have the quality to be substitutable but cannot be transferred as land of fixed capital.

As a synthesis, the *human capital* represents an individual investment in education and training and the mechanism is the same as the one used for investing in equipment, in manufacturing products or other outputs. Becker noted the economic effects of investment in education on the chances of acquiring a job and the earnings of the employees and it demonstrates how such a theory to justify the

³ A. C. Pigou, *A Study in Public Finance* (London: MacMillan, 1928).

⁴ Alexandru Trifu, *Gândirea economică în unitatea spațio-temporală* (Economic Thinking in spatio-temporal unit) (Iași: Performantica Publishing House, 2005), 112-113.

The Necessity of the Development of the Human Capital Concept

investment in this type of activities is necessary, for the benefit of both society and economic entities.

Most investments in *human capital* are required, in order to get to the rising earnings and profits for the entire society. The effects of the specialization on professional qualification lead to differences in productivity and explain also the differences in earnings between individuals and domains.

This empirical study (we are referring to Becker's book)⁵ analyzes the effect of a type of capital: *the formal education to earn income and to obtain productivity in different countries*. The basic technique used is to adjust earnings and incomes for people with varying degrees of education.

The human capital is materialized in a bank account, or shares (bonds) to a company, but also represents other types of capital: scholarships, practical courses and any other job or occupation, which brings benefit or appreciation from the part of other persons or employees. The most significant example for this topic is *the education*, i.e. university graduates, tends to be more capable and proficient in practice. Changes in educational knowledge are autonomous and the development along centuries attained by the educational system caused differentiations and a decline in earnings and rates of return from educational system.

Conclusions

This concept has to be profoundly analyzed in detail, because today's dynamic and complex world claims a united point of revealing the core of production factors: *the capital* in its multidimensional prospects.

We sustain that more investments in *human capital* are necessary, that is people capable of work to get better results and to increase the workforce of each country, leading to a worldwide development and knowledge.

For us, for the Romanians, the existence of a natural "grey wealth" is considered a comparative advantage within the European integration, but it needs real and outstanding investments in education and health, especially in higher education, in order to ensure, for each job, the person who fills the bill.

Therefore, the investments in education, health care services, technology transfer, research and innovation, become factors (even vectors) for sustaining the macroeconomic stability and they claim for a larger amount of GDP to be allocated. In the development context, the human factor is an essential one and a

⁵ Gary S. Becker, *Human Capital: A Theoretical and Empirical Analysis, with Special Reference to Education* (Chicago: University of Chicago Press, 1993).

small part from the GDP allocated for the entire sets of measurements of forming and shaping the human capital provides being a break in the global development project for long term.

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