

UNDERSTANDING THE MEASUREMENT OF HUMAN CAPITAL AND HUMAN CAPITAL INDEX IN THE GLOBAL CONTEXT

BELA WADUD

Dhaka School of Economics
E-mail: belawadud9695@gmail.com

Abstract - Human capital is a relatively new idea. Today, it might appear obvious to us that education enhances the productivity of the workforce, but the broader concept of human capital only developed during the last quarter of the twentieth century. The paper can be broadly divided into two sections. The one section is devoted to understanding the measurement of human capital and to relate the human capital models to reality. The last part of the paper will portray the global human capital index.

Keywords - Human Capital, Measurement, Approaches, Human Capital Index, Global Scenario.

I. INTRODUCTION

The term Human Capital was popularized by Gary Becker. Becker referred to investing in human capital as activities that influence future real income through embedding resources in people. The investments can be done in many ways including schooling, On-the-job training, medical care, vitamin consumption, acquiring information about the economic system (Becker 1962). A Higher level of education and healthcare can also be considered the end result of multi-dimensional development. But, the human capital concepts consider them the investment, which will enable people to have higher income, and higher quality of life in the future. Todaro & Smith (2012, p.360) in textbook define human capital as "Productive investments embodied in human persons, including skills, abilities, ideas, health, and locations, often resulting from expenditures on education, on-the-job training programs, and medical care". The Human Capital is a broad concept, but researchers have used many proxy variables for human capital to avoid the problem. School enrollment rate, average years of schooling, a percentage of GDP spent on education etc. are some methods through which researchers have tried to measure human capital. Perspective regarding capital among economists has observed the great shift from mere physical capital to human capital during the middle of the 21st century. Human capital has been included as a very prominent explanatory factor of economic growth of a country. According to Schultz (1961), economists have long recognized that people are an important component of the wealth of nations. However, human capital, as an important component of the wealth of a nation, has been recognized, included and analyzed in the development discourse by so many economists at the very early period of economic discipline.

II. MEASURING HUMAN CAPITAL

Today, with the growing significance of knowledge economy, human capital has increasingly attracted

both academic and public interest. In practice, private and public investment in human capital, in the form of expenditure in education and training, accounts for over 10 percent of national income in most OECD countries (Healy, 1998). Therefore, understanding human capital bears paramount significance to politicians, economists and development strategies. Economists such as Romer, Lucas and Jones and Manuelli have emphasized human capital in their development theories. Their theories have underscored human capital which fosters growth through stimulating technological creation, invention, and innovation, as well as facilitation of the uptake and imitation of new technologies.

III. APPROACHES OF HUMAN CAPITAL:

3.1 Cost Based Approach:

Cost-based approach, originated by Engel who estimated people's human capital-based rearing cost to their parents, is one of the most common approaches for measuring human capital. Kendrick (1976) and Eisner (1985) (1989) two are prominent among those who have systematically measured the human capital by a cost-based approach. Kendrick divided human capital into tangible and intangible human capital tangible components of the costs required producing the physical human being and intangible investment aims at enhancing the quality of productivity of labor. This approach provides an estimate of the resources invested in the education and other human capital related sectors, which can be useful for cost-benefit analyses. Cost-benefit approach is a convenient to approach for measurement purpose and has very critical issues which create a barrier to make this measurement applicable to public policymaking.

3.2 Income Based Approach:

Income based approach of human capital measurement is one of the earlier concepts which predates the cost-of-production method. Petty (1690) was the first to use this framework. He calculated the

human capital stock of England by capitalizing to perpetuity the wage bill, defined as the difference between the estimated national income (£42 million) and property income (£16 million), at a 5 percent interest rate (Les Oxley, 2008). This gave a result of £520 million, or £80 per capita. Petty's method was simplistic as it did not account for the heterogeneity of the population. The income-based approach measures human capital by summing the discounted values of all future income streams that all individuals in the population expect to earn throughout their lifetime. This method is 'forward-looking' (prospective) because it focuses on expected returns to investment, as opposed to the 'backward-looking' (retrospective) method whose focus is on the historical costs of production. This method provides the most meaningful results if required data are available.

IV. CONSIDERATIONS HUMAN CAPITAL INDEX IN GLOBAL CONTEXT:

4.1 Global Human Capital Index:

To provide Assessment of a country's human capital in both current and expected across its population was aims of the Global Human Capital Index. The Index provides a practical tool to policy-makers and business leaders and quantifies key concepts.

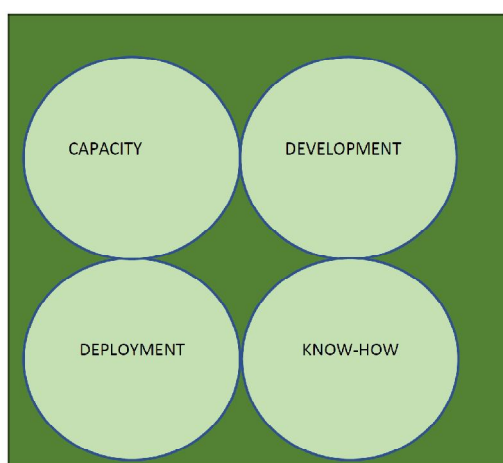


Figure 1: Elements of Human Capital

There are several distinctive aspects to the notion of human capital as conceptualized in (Figure 1). First, the Global Human Capital Index commends relevant skills as a dynamic asset people have and develop over time, not the innate talent that is fixed.

The notion that it is neither through "cheap labor" nor through attracting a narrow set of the "best and the brightest" and winning a "war for talent" that shows secondly which helps to the understanding of human capital. Through building up deep and skills ecosystems in their economies countries can optimize their long term human capital potential.

The Third stage showed the value of human productivity and creativity and a human-centric vision of the future of work. Those productivities and creativity of human recognize people's knowledge, talents, and skills as key drivers of a prosperous and inclusive economy.

4.2 Global Human Capital Core Concepts And Dimensions:

There are several guiding concepts which revised Index, forming the basis of how the scale used and the data is treated and the indicators were chosen. Those guiding concepts were Outcomes vs. inputs, Distance to the ideal, Human capital as a dynamic concept and Demographics count.

Four thematic dimensions form the sub-indexes of the Global Human Capital Index—Capacity, Deployment, Development, and Know-how.

The Index's Capacity sub-index quantifies the existing stock of education across generations.

The Deployment sub-index emphasizes the active participation in the workforce across generations.

The Development sub-index follows current efforts to educate, skill and upskill the student body and the working age population.

The Know-how sub-index captures the growth or depreciation of working-age people's skillsets through opportunities for higher value-add work.

Varied dimensions portray in the Global Human Capital Index. The aim of this index is to use these dimensions within the limits of available data and where possible and relevant applies a generational lens across five distinct age groups or generations—0–14 years; 15–24 years; 25–54 years; 55–64 years; and 65 years and over.

CONCLUSIONS

Human Capital was not a fixed concept rather than as a dynamic. Knowledge and skill represent the human capital that enable people to create value in the global economic system. Both approaches had some positive and negative side of the measurement. In Cost-based approach, these effects create barrier cause this measurement has very critical issues to make the measurement applicable to public policy making. In the Income-based approach the major problem lies in the lack of reliable data on earnings and the unjustified assumption about future earnings. Elements of human capital create value for those countries who follow those concepts and dimensions of the global human capital index.

REFERENCES

- [1] Bowman, M. (1962). Economics of Education.
- [2] Jhingan, M. (1997). Economics of Development and Planning . Vrinda Publication.
- [3] Kiker, B. (1966). The Historical roots of the concept of human capital. Journal of Political Economy .

- | | |
|--|--|
| <p>[4] Les Oxley, T. (2008). Measuring Human Capital: Alternative Methods and International Evidence. Korean Economic Review.</p> <p>[5] Machlup. (1984). The Economics of Information and Human Capital. Princeton University.</p> <p>[6] Measuring Human Capital. (n.d.). 2016: World Economic Forum.</p> <p>[7] Petty, W. (n.d.). Political Arithmetik.</p> | <p>[8] Ray, D. (1997). Development Economics. Oxford University Press.</p> <p>[9] Schultz, T. (1961). Investment in Human Capital. American Economic Review.</p> <p>[10] The Global Human Capital Report. (2017). World Economic Forum.</p> <p>[11] Todaro, M. S. (2012). Economic Development. Pearson Education.</p> |
|--|--|

★ ★ ★