

FACTORS DETERMINING DIFFERENT FORMS OF CAPITAL

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SHIV KUMAR

Assistant Professor of Economics,
A.S. College, Khanna (Punjab), India

Abstract

Human capital is the stock of knowledge, habits, social and personality attributes, including creativity, embodied in the ability to perform labor so as to produce economic value. Many theories, explicitly connecting investments in education, and the role of human capital in economic development, productivity, growth, and innovations, have frequently been cited as a justification for government subsidies for education and job skills training. The main objective of this paper is to summarize various factors which influence the creation of human capital. There are so many factors (educational, intellectual, environmental, advancement in technology, population, social, physical, science) which influence the human capital, which play significant role in the human capital creation.

Keywords: family, education, human capital, social capital, technology.

Introduction

Human capital is the stock of knowledge, habits, social and personality attributes, including creativity, embodied in the ability to perform labor so as to produce economic value. Alternatively, human capital is a collection of resources – all the knowledge, talents, skills, abilities, experience, intelligence, training, judgment, and wisdom possessed individually and collectively by individuals in a population. These resources are the total capacity of the people that represents a form of wealth which can be directed to accomplish the goals of the nation or state or a portion thereof. It is an aggregate economic view of the human beings that human capital is an attempt to capture the social, biological, cultural and psychological complexity as they interact in explicit and/or economic transactions. Many theories, explicitly connecting investments in education, and the role of human capital in economic development, productivity, growth, and innovations, have frequently been cited as a justification for

government subsidies for education and job skills training (Wikipedia, 2015). The main objective of this paper is to summarize various factors which influence the creation of human capital. The paper is divided into three sections. Following introduction, the various factors influencing human capital are presented in section two and the paper concludes in section three.

Factors Influencing Human Capital

The creation of human capital is influenced by numerous factors. Some of these factors are social, educational, physical, technical, intellectual, family and population. All of these factors are presented in the following paragraphs.

Social Capital

Social capital is a broad term containing the social networks and norms that generate shared understandings, trust and reciprocity, which underpin cooperation and collective action for mutual benefits, and creates the base for economic prosperity. Coleman (1988) found that social capital, especially family social capital and parental social capital, contributes to create human capital through the improvement in the performance of students and through the reduction in dropouts. For example, the parents at their best level can provide a well equipped ultra modern study room and a modern public school as well as extra coaching arrangements for their kids. But if they cannot spare time for the study of their kids the children cannot do so well in education. Coleman also found that in USA, the Asian migrants buy two sets of textbooks for their children, one set for the child and the other for themselves. So contribution of family social capital clearly gives required results for the creation of social capital.

Educational Achievement

The theory of human capital studied from the end of nineteenth century, was widely developed in many countries of the world. There are plenty of fundamental research works touching upon the concept of human capital, developing the methodology for investigation of social and economic category of human resources and proving significance of human resources for the economic growth of the country. The correlation between indicators of education and those characterizing the general level of economic development was analyzed and the efficiency of competition in the field of education, its globalization and influence on human resources was studied. As a result, it was proved both theoretically and practically that there is a fundamental relation between education, human capital and economic growth of the country, human resources oriented to intellectual, hi-technology, productive and creative activities. An increase in labour productivity is found to be the result of increase in the educational level.

Physical Capital

It is one of the factors of production (or input into the process of production), consisting of machinery, buildings, computers, and the like. The others are natural resources (including land), labour and technology – the stock of competences embodied in the labour force. Hence, the production function takes the general form

$$Y = f(N, L, K, T)$$

where, Y = the amount of output produced,

N = natural capital,

L = the amount of labor used,

K = the amount of capital stock used, and

T = technology.

The word "Physical" in physical capital is used to distinguish physical capital from human capital (a result of investment in the human agent), circulating capital, and financial capital. "Physical capital" is fixed capital, any kind of real physical asset that is not used up in the production of a product. Usually the value of *land* is not included in physical capital as it is not a reproducible product of human activity. However, in the form of cleanliness of environment, that can be generated through the eco friendly use of physical capital, physical capital sharpens the skill of thinking of humans and positively contributes in the creation of human capital.

Technical Capital

Capital plays a vital role in the modern productive system. Production without capital is hard for us even to imagine. Nature cannot furnish goods and materials to man unless he has the tools and machinery for mining, farming, forestry, fishing, etc. If man had to work with his hands on barren soil, productivity would be very low indeed. With the growth of technology and specialization capital has become more complex, superior and advanced. In fact, greater productivity of the developed economies like that of USA is mainly due to the extensive use of capital, i.e. machinery, tools or implements in the productive process. Much economic development is not possible without making and using of industrial machinery, making of agricultural tools and implements, building of dams, bridges, factories, roads, railways, airports, ships, ports etc. which all needs human capital. All these capital goods are man-made instruments of production and increase the productive capacity of the economy as well as create the human capital.

Capital accumulation is necessary to provide people with tools and implements of production. If the population goes on increasing and no net capital accumulation takes place, then the growing population would not be able to get necessary tools, instruments, machines and other means of production with the result of that their capacity to produce would be seriously affected. Besides this, capital, accumulation makes possible the use of indirect or round-about methods of production which greatly

increase the productivity of the workers. Under these indirect or round-about methods of production, workers instead of working with bare hands, work with the aid of more productive tools, instruments and machinery. Under these indirect or round-about methods some workers and other productive resources are first employed in producing capital goods and then with the help of these capital goods workers produce consumer goods. The greater the extent to which the methods of production would be indirect or round-about, the greater their productivity and efficiency. But, as we have seen above, for the use of indirect or round-about methods of production capital has to be accumulated. Therefore, we see that capital accumulation makes the use of indirect or round-about methods of production possible and thereby greatly increases the national product and is helpful in bringing about rapid economic growth.

Population

Productivity of the workers depends upon the amount of capital per worker. The greater the quantity of capital per worker, the greater the productivity of the workers. It is not capital accumulation alone that increases the amount of capital per worker. Capital per worker rises when the rate of capital accumulation is greater than the rate of population growth. With the increase in population, productivity of national product and income will rise as well. Therefore, capital accumulation, by increasing the productivity of the workers, plays an important role in the growth of the economy. As population grows faster than the increase in the stock of capital, this results in unemployment. But if the rate of capital formation is sufficiently high then employment opportunities are enlarged and human capital will also be created in the country. In India the stock of capital has not been growing at a fast enough rate so as to keep pace with the growth of population.

Intellectual

Furthermore, recent research indicates that intellectual assets and resources can be utilized much more efficiently and effectively if organizations apply knowledge management techniques for leveraging their human resources and enhancing their personnel management (Mitra et al., 2011). The human resources departments are well positioned to ensure the success of knowledge management programs, which are directed at capturing, using and re-using employees' knowledge. Through human resources management a culture that encourages the successful implementation of new technologies is dependent on many factors including the free flow of knowledge for meeting organizational goals can be created.

Family

It cannot be denied by anyone that family plays vital role in human capital creation. It would not be wrong to say that home is first school of every child .He/she learns various skills from the home to perform some special activities. Their attitude

aptitude, abilities, capabilities and interests are firstly made by their family. Their surroundings help them to develop their personality, knowledge, intelligence. They mainly learn from their experience, culture, society, customs and rituals.

Conclusion

To sum up, it is concluded that human capital plays essential role in the growth as well as development of any country. On the other hand, there are so many factors (educational, intellectual, environmental, advancement in technology, population, social, physical, science) which influence the human capital, which play significant role in the human capital creation.

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