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# Human Capital a Part of Social Capital

## ABSTRACT

The article considers the content and the structure of human capital. The term “human capital” is viewed as people’s abilities to participate in the production process in order to make use of their potential skills. A particular attention is paid to the meaning of social capital and its role in the formation of human capital. It is proven that there is not much research on the connection between human and social capital. Human development index in Ukraine and 20 leading counties of the global ranking is examined. Based on statistical indicators, the influence of deficiency in family social capital on the education process is defined. The scheme of distinction between human and social capital is introduced as well as connections between them in a realization form of social capital. **Key words:** *human capital, development indicators, social capital, criteria, values, education.*

**Introduction.** The society transition to the post-industrial stage of development led to significant contradictions in economic systems of the most developed countries. In the industrial society, company’s chances to achieve economic success were determined by its material and financial assets and were based on wealth in its traditional financial meaning with money as the main criterion. In the post-industrial society, at the level of a particular company or a society in general, the new meaning of wealth has appeared, which is connected with the gradual rejection of traditional money and property criteria.

**Problem Statement.** Emergence of new production forms led to creation of new professions since new technologies and forms of labor management modernized the existed ones. The number of jobs that require wider knowledge and higher education has risen. Therefore, the number of workers with low or average skills has significantly decreased during last 10-15 years. There has been a great increase in jobs that require highly-qualified workers and this tendency will continue.

**Objective.** The main objective of the article is to examine the meaning and usage of the term “human capital” in its connection with social capital as well as its ability to participate in the production process.

**Analysis of Recent Researches and Publications.** The theory of human capital as a separate economic subject started to form at the end of 1950’s due to the scientific and technical revolution in productive forces. It was based on scientific ideas about human productive forces of such distinguished economists as William Petty (1997), Adam Smith (1962), Karl Marx (1961), John Stuart Mill (2007), John Bates Klark (1992), Alfred Marshall (1993), Joseph Schumpeter (2001) and others.

The first to develop the concept of human capital was Theodore Schultz, an American scientist and a representative of the Chicago School. The main principals of his theory were stated in the articles “Capital Formation by Education” (1960) and “Investing in Human Capital” (1961). He outlined the term “human capital” as the set of knowledge, skills and qualifications that support the main function of production means and durable goods (Shultz, 1968).

**Research Results.** The process of globalization can be views as a defined characteristic of new economy. The world globalization is determined by rising economic interconnection between countries and has a growing effect on opposite flows of goods, services and know-how. A significant development of world trade means growing competition that in its turn makes innovations the main means of success. Globalization led to qualitative changes in production processes. These changes appear in a shift of demand for work force on a labor market, where demand for highly-qualified workers is on the rise.

Foreign investment causes one more problem, as indicated by other countries’ experience. Large-scale investment will not be made in the country with inefficient production and unstable financial situation. According to Robert Lucas’s theory, the higher level of workers’ education, the greater total capital amount, since educated workers are more capable of innovations. In fact, this is the reason why capital will not move from rich countries to poor. In other models there is a similar pattern: greater level of individuals’ education rises their own working productivity as well as their co-workers’ productivity. In other words, the general level of productivity grows, when the average education level increases. It can be added that technological advances depend on the level of scientific research in the economy.

The general pattern of modern development of social science, more and more is accompanied with joining of efforts and research concentration on human problems. From the point of view of economic science, it pre-determines the transition to “human” measurement of society life, the shift of an individual as a producer and a consumer to the center of social and economic system.

The objective bases increase a human role in economic processes and go beyond the sphere of immediate production of goods and services. Currently, those bases are formed inside this sphere. Technical equipment and technological processes require the participants of the production process to have a high level of general as well as professional knowledge.

The term “human capital” as the economic category was formed in a market environment. It gave the opportunity to review a human role in social production relations and draw attention to the growing significance of intellectual activities and nonmaterial wealth for the recreation of social life.

In our opinion, human capital is people’s abilities to participate in the production process in order to make use of their potential skills (natural and obtained) to make profit (individual and social). It includes natural skills and talents, as well as obtained ones: education, professional knowledge, qualifications and practices. It is well known, that a human by its nature is, from one side, a physical being and, from the other, a social being.

According to the report of UN Development Program (UNDP) on human development 2012/2013, Ukraine is one of a few European countries that are still in the group with the average level of human development. The national index of human development is 0.788 that gave opportunity to take only 76th spot in the global ranking (Table 1).

**Table 1**  
**Human Development Index in Ukraine and 20 Leading Counties of the Global Ranking.**

Country	Integral indicator		Life expectancy at birth (years)	Gross enrollment ratio for education, %	Gross national income (GNI) per capita, dollars (PPP)	Change in rank between GDP Index and Human Development Index
	index	rank				
Island	0,968	1	81,5	95,4	36510	4
Norway	0,968	2	79,8	99,2	41420	1
Australia	0,962	3	80,9	113,0	31794	13
Canada	0,961	4	80,3	99,2	33375	6
Ireland	0,959	5	78,4	99,9	38505	-1
Sweden	0,956	6	80,5	95,3	32525	7
Switzerland	0,955	7	81,3	85,7	35633	-1
Japan	0,953	8	82,3	85,9	31267	9
Netherlands	0,953	9	79,2	98,4	32684	3
France	0,952	10	80,2	96,5	30386	8
Finland	0,952	11	78,9	101,0	32153	3
USA	0,951	12	77,9	93,3	41890	-10
Spain	0,949	13	80,5	98,0	27169	11
Denmark	0,949	14	77,9	102,7	33973	-6
Austria	0,948	15	79,4	91,9	33700	-6
United Kingdom	0,946	16	79,0	93,0	33238	-5
Belgium	0,946	17	78,8	95,1	32119	-2
Luxemburg	0,944	18	78,4	84,7	60228	-17
New Zealand	0,943	19	79,8	108,4	24996	9
Italy	0,941	20	80,3	90,6	28529	1
Ukraine	0,788	76	67,7	86,5	6848	9

Source: [11]

Analyzing the reasons of the lag, first of all it should be noted that Ukrainian’s life expectancy at birth is inadmissibly low: 67.7 years – it is 110th spot out of 177 countries, represented in the ranking. 11 countries have already crossed “80 years” mark; the following countries have the highest results: Japan (82.3 years), Hong Kong (81.9 years), Iceland (81.5 years), and Switzerland (81.3 years).

Ukraine belongs to the average-income group, according to the education component is close to the high-income countries; however, it has low indicators of life expectancy and GDP not just for its group but in comparison with the world average level. Consequentially, the problems of human development in our country include not just low indicators of life expectancy and GDP, but also a misbalance between its components.

However, in our opinion, it is insufficient just to study the connection between human and social capital. It is apparent to the naked eye: people as members of the society create social networks and own moral values and they employ them as citizens. Moreover, educated people are better at cooperation and expressing credibility to others. They focus more on achieving the overall result that will be satisfactory to them and their associates. The product of effective social capital is social cohesion which creates conditions for the convergence of private, public and state interests.

The effective ways of country’s development can be precisely determined only when comparing with human values that serve as internationally recognized value measurements. Human values form the basis of genuine human capital. Opposed to it, social capital is defined as a close network of social connections. Those connections include credibility and social involvement viewed as a totality of virtues and as social cooperation that is based on moral standards, that is, as the functional expression of human capital. The difference between human and social capital is illustrated in a form of the triangle in Figure 1. Vertices represent people who process human capital (and in perspective social capital), whereas edges represent the realization of social capital. Social and human capital is often complementary.

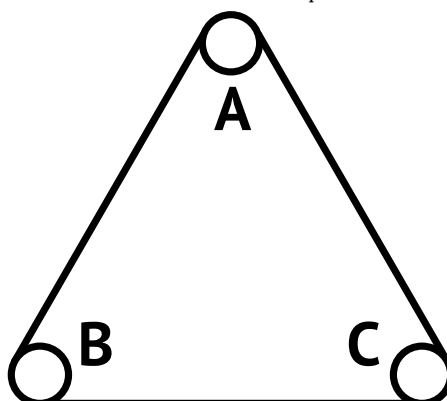


Figure 1. The Structure of Three Individuals: Vertices Represent Human Capital, Edges Represent Social Capital.

**Conclusion.** Based on our understanding of the connection between social and human capital, we can conclude that modern economic processes will not be complete without their social aspect with humans and their qualitative characteristics in the center.

The human becomes a bearer of different creative and intellectual skills as a response to the existed demand for highly-qualified work in a society.

Therefore, knowledge and information are viewed not as unrelated things to a regular worker, but as intellectual capital and the main component of human capital. Direct labor more often requires creativity, knowledge, information and it becomes a permanent growing process. The idea of economic categories has not just been transforming, their new meaning is being formed in accordance with outside changes.

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