

Week 11

Human Capital



Human capital refers to the stock of productive skills and technical knowledge embodied in labour.

Many early economic theories refer to it simply as labour, one of three factors of production, and consider it to be a tangible resource -- homogeneous and easily interchangeable.

Other conceptions of labour dispense with these assumptions.

Knowledge and capital

- Unlike physical labour (and the other factors of production), knowledge is:
- Expandable and self generating with use: as doctors get more experience, their knowledge base will increase, as will their endowment of human capital. The economics of scarcity is replaced by the economics of self-generation.
- Transportable and shareable: knowledge is easily moved and shared. This transfer does not prevent its use by the original holder. However, the transfer of knowledge may reduce its scarcity-value to its original possessor.

Human capital and labor power

- In some way, the idea of "human capital" is similar to Karl Marx's concept of labour power: to him, under capitalism workers had to sell their labour power in order to receive income (wages and salaries).
- But long before Mincer or Becker wrote, Marx pointed to "two disagreeably frustrating facts" with theories that equate wages or salaries with the interest on human capital.

- The worker must actually *work*, exert his or her mind and body, to earn this "interest." Marx strongly distinguished between one's *capacity* to work, Labour power, and one's very human activity of working.
- A free worker cannot sell his human capital to receive money revenues; it is far from being a liquid asset. He does not sell his skills, but contracts to utilise those skills. Even a slave, whose human capital can be sold, does not earn an income him- or herself; instead, the slave-owner gets the income. Under capitalism, to earn income, a worker must agree to the labour conditions (including obedience to the rules and directives) of an employer who wants to hire for a specific period of time

Social capital

- **Social capital**, referring to connections within and between social networks, is a core concept in business, economics, organisational behaviour, political science, public health, and sociology.
- Though there are in fact a variety of inter-related definitions of this term, which has been described as “*something of a cure-all*” for the problems of modern society, they tend to share the core idea “that social networks have value.”
- Just as a screwdriver (physical capital) or a college education (human capital) can increase productivity (both individual and collective), so too social contacts affect the productivity of individuals and groups”.

Intellectual capital

- **Intellectual capital** is a term with various definitions in different theories of management and economics. Accordingly its only truly neutral definition is as a debate over economic "intangibles".
- Ambiguous combinations of human capital, instructional capital and individual capital employed in productive enterprise are usually what is meant by the term, when it is used to actually refer to a capital asset whose yield is intellectual rights