

EMERGENCE AND HISTORICAL ROOTS OF HUMAN CAPITAL

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Annotation: The paper deals with the main stages of the formation of the theory of human capital in works of L. Walras, J.M. Clark, F. List, D. Ricardo, and J. McCulloch who showed the influence of the theories of marginal utility, supply and demand, costs, etc. on the development of human capital. The source of the nation's wealth is "mental capital", i.e. discoveries, inventions, achievements in science and art. G. McLeod emphasized the importance of employee competence, A. Marshall introduced the concept of "personal capital". The essence of human capital is understood ambiguously: a) it is a person as a set of characteristics, b) only his ability to work. The transition to innovative production, an increase in the share of intellectual, highly professional labor costs, etc. contributed to the formation of a full-fledged (classical) theory of human capital. In parallel, the institutional theory of human capital was formed, in which a special role was given to the social environment. On its basis, the foundations of other areas of human capital theory were laid, such as the economy of education, knowledge, and intellectual property. Human capital has been interpreted in an expanded way

Keywords: human, mental, personal capital, competence, ability to work, innovative production, intellectual costs, profitability of the educational system

The Historical Roots of the Concept of Human Capital

In recent years, economists have devoted a great deal of effort to developing and quantifying the concept of "human capital" and to applying it, through the concept of investment in the formation of human capital, to such activities as education, whether academic study or on-the-job training, migration, and medical care.' The concept of human capital, however, is by no means new.

The Theory of Human Capital Formation: Implications for Developing Countries

The appearance of yet another article on human capital formation through education needs a preliminary apology. Much has been written on human capital theory or, as the concept is otherwise known, the human investment theory of growth, in the last two decades. Both highly technical articles that are based on a quantitative assessment of the economic returns to education exist as well as massive collections of educational statistics that are, more or less, descriptive rather than analytical. The multiplicity of these articles has led to what is now commonly referred to as the "human investment revolution in economic thought,"¹ which has served as a powerful ideological tool influencing the discussion and actual direction of education policy in many developed and developing countries. The general human capital theory is largely accepted.² What is at issue in this paper is the naive and artificial transfer of concepts constructed for one economic reality to a completely different one. It is, therefore, profitable to stop for a moment and look critically at some of the ideas and assumptions lying behind the human capital theory that have been propagated for so long.

The purpose of the article is to present the evolution of the term "human capital" (hereinafter - HC), to show its perception in the modern world in terms of economic progress, to consider the interpretation of this term at different times, to classify the definitions of the term HC according to historical chronological stages. A study of the literature on HC makes it possible to understand that traditional interpretations of HC as a knowledge base not only do not correspond to the nature of the modern economy, but also often distort the role and significance of HC. The correct interpretation of the essence of the term HC can contribute to the adoption of economic and political decisions that will promote economic growth both at the macro and micro levels, especially for those countries that are not rich in natural resources and can develop mainly through the accumulation and development of HC (for instance Republic of Armenia). This study can be useful for both economists and sociologists in the development or analysis of estimates and indicators of the HC, conducting research on its role in the development of different countries or the world economy.

What is Human Capital Development?

Human capital development refers to the process of enhancing and improving the skills, knowledge, abilities, and overall potential of individuals within a society or organization. It recognizes that individuals are valuable assets and focuses on investing in their development to maximize their contributions and productivity.



Human capital development encompasses various activities aimed at improving human resources, such as education, training, mentorship, skill-building programs, and career development initiatives. The goal is to equip individuals with the necessary competencies and capabilities to thrive in their professional and personal lives.

Investing in human capital development has several benefits. It can lead to increased productivity, innovation, and competitiveness at both individual and organizational levels. It also promotes economic growth, social mobility, and improved quality of life.

Governments, businesses, and educational institutions often play a significant role in facilitating human capital development. They may establish policies, programs, and initiatives to foster education, vocational training, professional development, and lifelong learning opportunities. By nurturing human capital, societies can unlock the full potential of their people and create a more prosperous and inclusive future.

Relevance of Human Capital Development in Organisations

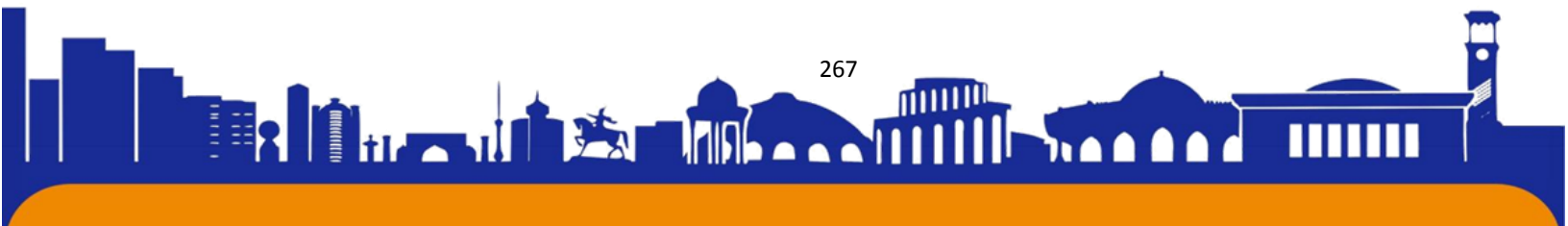
1.Improved Performance: Investing in the development of employees' skills and knowledge enhances their performance and productivity. When employees are equipped with the necessary competencies, they can effectively contribute to achieving organizational goals and deliver high-quality work.

2.Competitive Advantage: Organizations that prioritize human capital development gain a competitive edge in the marketplace. Well-trained and skilled employees enable companies to innovate, adapt to changing market conditions, and stay ahead of their competitors.

3.Employee Retention and Engagement: Offering opportunities for learning and growth within the organization increases employee satisfaction and engagement. When employees see that their development is valued and supported, they are more likely to stay with the company, reducing turnover rates.

4.Succession Planning: Human capital development ensures that organizations have a pipeline of talented individuals who can take on leadership and critical roles in the future. By nurturing and developing employees' skills, organizations can groom their own talent and reduce dependence on external hiring.

5.Adaptability and Resilience: In a rapidly changing business environment, organizations need employees who are adaptable and resilient. Human capital





development equips employees with the skills to embrace change, learn new technologies, and navigate complex situations effectively.

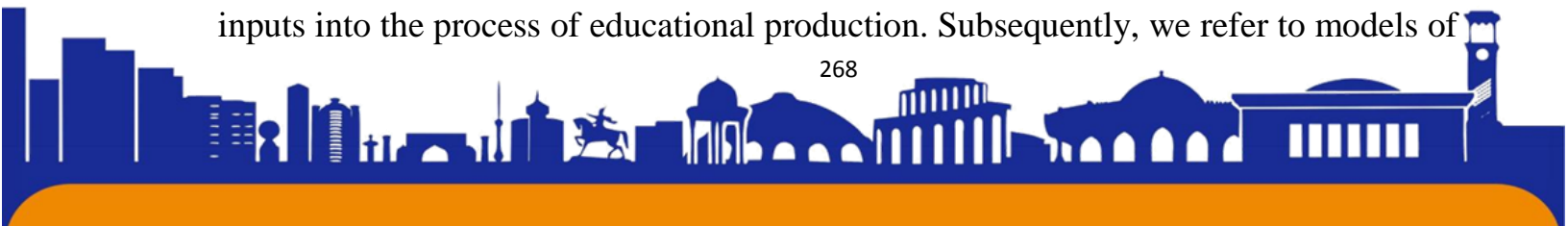
6. Innovation and Creativity: Developing employees' knowledge and expertise fosters innovation and creativity within organizations. Well-trained individuals are more likely to generate new ideas, solve problems, and contribute to continuous improvement.

7. Organizational Culture and Morale: Investing in human capital development creates a positive work culture where employees feel valued and supported. This fosters a sense of loyalty, commitment, and pride, leading to higher morale and a more cohesive workforce.

8. Reputation and Employer Branding: Organizations that prioritize human capital development tend to have a positive reputation and strong employer branding. This can attract top talent, as individuals are drawn to organizations that prioritize their professional growth and development.

A Review of Human Capital Theory: Microeconomics

With the beginning of the new millennium it has become more and more apparent that education and human capital constitute a key element of modern economies. Despite the important role of human capital in modern societies, there are still many unknowns about the process of educational production as well as individual and collective decisions concerning how much and what kind of education to obtain. This literature review aims at providing a better understanding of the process of human capital formation and educational attainment. Although human capital plays an important role in both microeconomics and macroeconomics, we focus on the former branch of literature in order to analyze the individual incentives to acquire skills. This review is divided into six parts each of them representing an important stream of human capital literature. First, we introduce the basic concept of human capital that models individuals as investing in skills in response to the expected returns to education. After this, we investigate the different implications of investments in general and specific human capital and then provide an overview of various empirical studies measuring the rate of return to education. Because educational attainment may also be affected by other factors such as school characteristics or family background, we review the literature on educational production functions and discuss the significance of potential inputs into the process of educational production. Subsequently, we refer to models of





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human capital accumulation over the life-cycle that manage to replicate the empirical life-cycle patterns with respect to the age-earnings profile of individuals. Finally, we analyze the effects of taxation and education subsidies on the formation of human capital.

Conclusion: Overall, human capital development is crucial for organizations to build a skilled and motivated workforce, drive innovation and adaptability, and maintain a competitive edge in the market. By investing in their employees' development, organizations can create a positive work environment, achieve higher performance, and position themselves for long-term success.

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