

chapter 2



At the end of this chapter, students should be able to:

- define human capital;
- explain the characteristics of human capital;
- mention the factors affecting the efficiency of human capital;
- distinguish between human capital and physical capital;
- explain brain drain and its effect on the Nigerian economy;
- explain the theory of human capital

2.1 Introduction

Human capital development deals with the procurement, management and development of human resources. It focuses on how to improve the knowledge and skills of individuals. This chapter shall examine the definition of human capital, characteristics of human capital and factors affecting the efficiency of human capital. Distinction between human and physical capital, brain drain and its effect on the Nigerian economy, arresting brain drain and theory of human capital will also be examined.

2.2 Definition of Human Capital

Human capital can be defined as the quantity and quality of labour available in an economy. It is the labour force of an economy. The development of an economy is dependent on the quality of its human capital.

Thus, there is need for human capital development. Human capital development refers to those activities geared towards improving the knowledge, sharpening the skills, instilling the values and encouraging the behaviour necessary to actualise the potentials of workers. It includes the

provision of learning, training and development opportunities in order to improve individual, team and corporate performance. It is the process of identifying deficiencies in terms of skills, knowledge and attitude of those employed.

2.3 Characteristics of Human Capital

- (a)** It is man-made.
- (b)** Capacity increase is a must.
- (c)** Pay-off time is long.
- (d)** Build-up period is long.
- (e)** Depreciation is certain.

2.4 Factors Affecting the Efficiency of Human Capital

(a) Education and training: This includes in-service trainings, seminars, conferences, symposia and so on that will help workers acquire the necessary skills and make them more efficient in the performance of their duties.

(b) Improved health facilities: Improved health of workers will lead to improved productivity.

(c) Efficient management: If those at the apex of managerial ladder are efficient, all things being equal, their subordinates will follow suit and vice versa.

(d) Motivation: If workers are motivated through promotion at the appropriate time or period, workers will be motivated to work harder.

(e) Improved working conditions: It includes the tools, materials and atmosphere that enhance the efficiency of workers.

(f) Job security: Job security imposes confidence in workers and creates an atmosphere that encourages growth and efficiency in performance. This is because the workers are sure of job continuity.

(g) Technological improvement: The improvement in technology, mostly in the area of information and communication technology, has improved the efficiency of workers and affected human capital positively.

2.5 Distinctions between Human and Physical Capital

(a) Human capital is the stock of competence, knowledge and personality attributes embodied in human beings to carryout economic activity with the ability to produce value. It is achieved through education and experience. Early economists refer to it simply as workforce. But physical capital includes equipments, buildings and machines and cash used to produce other goods.

(b) Human capital refers to the quality of education and experience possessed by a worker. While physical capital refers to the quality of the things that could be seen as fixed in the company, e.g., materials, machines, finances and other physical items belonging to the company.

(c) Human capital refers to the investment in education and skill acquisition of people in the labour force, while physical capital refers to the investment in infrastructure, productive physical plants and equipments.

(d) Human capital is the labour required to directly contribute to the production of goods and services, e.g., an engineer in the production of a car, a sewer in a cloth factory, etc., while physical capital is the contribution of inanimate objects in the production of goods and services, e.g., a sewing machine, a drill, a hammer, a crane, a computer, etc.

2.6 Brain Drain and Its Effect on the Nigerian Economy

Brain drain commonly referred to as human capital flight is the large-scale emigration or movement of a large group of individuals with technical skills or knowledge from home country to another country. The reasons could be from individuals or countries. Brain drain has affected the Nigerian economy negatively having lost most of her professional citizens to other countries due to poor standard of living, political instability, low per capita income and civil unrest.

The Federal Government of Nigeria convinced by the human capital paradigm of development states that educated citizenry or skilled human beings are critical or indispensable to national development and this is recorded in the National Policy on Education (2004:5) by stating that: "Education in Nigeria is no more private enterprise but a huge government venture that has witnessed a progressive evolution of government's complete and dynamic intervention and active participation. The Federal Government of Nigeria has adopted education as an instrument par excellence for effecting national development". In terms of countries, the reasons may be social environment like the lack of opportunities, political instability, economic depression, health risk, etc. In terms of individual reasons, there are family influences such as overseas relatives and personal preference, preference for exploring ambition or improvement of career. Brain drain has an adverse effect on the Nigerian economy since emigrants take with them the value of their training and experience to other parts of the world. It is a parallel of capital flight, which refers to the similar movement of financial capital. Brain drain is often associated with deskilling of a country where labour has emigrated from their destination, while their country of emigration experiences the draining of skilled individuals.

2.7 Arresting the Incidence of Brain Drain

The following are possible solutions to the problem of brain drain:

(a) Delay of professionals from emigration: Professionals such as medical doctors, architects, nurses and teachers may be asked to stay for a stipulated number of years to pay back what they owe to the society.

(b) Prevention of emigration: Emigration can be inhibited by developing special privileges through pay incentives, enhanced research budgets and hospital subsidies.

(c) More interventionist variations of the market solutions: There should be improvement in the working conditions in the affected countries. This, for example, may be in the form of provision of housing, health facilities, retirement benefits, etc.

(d) Provision of basic infrastructural facilities: There is a need for the provision of basic infrastructural facilities, such as; good roads, steady electricity, pipe-borne water, etc., and adequate security.

2.8 Theory of Human Capital and National Development

The level of national development in an economy depends on the quality and quantity of human capital in the economy.

(a) The greater the stock of human capital in a country, the higher the potential for national development. The human capital and national development hypothesis is aptly stated by Harbison (1973:3) in the following words: Human resources, not capital or income or material resources, constitute the ultimate basis of the wealth of nations. Capital and natural resources are passive factors of production; human beings are the active agents who accumulate capital, exploit natural resources, build social, economic and political organizations and carry toward national development.

(b) The higher the quality of human capital in a country, the higher the potential for national development in that country.

(c) Investment in human capital development of a country is an investment in the country's national development.

(d) Human resources not capital or income or material resources constitutes the ultimate basis of the wealth of nations.

(e) Capital and natural resources are passive factors of production; human beings are the active agents who accumulate capital, exploit natural resources, build social, economic and political organizations and work towards realization of national development.

(f) Education of the citizenry or skilled human beings is indispensable to national development.

Summary

Human capital development refers to those activities geared towards improving the knowledge, sharpening the skills, instilling the values and encouraging the behavior necessary to actualise the potentials of workers.

Characteristics of human capital

(a) It is man-made.

(b) Capacity increase is a must.

(c) Pay-off time is long.

(d) Build-up period is long.

(e) Depreciation is certain.

Factors affecting efficiency of human capital

(i) Education and training

(ii) Improved health facilities

(iii) Promotion at due times

- (iv) Appropriate incentives
- (v) Technological improvement

â€¢ **Distinction between human and physical capital**

Human capital development deals with the development of human beings, while physical capital development deals with the investment in infrastructure and productive physical plants and equipments.

â€¢ **Brain drain:** Large-scale emigration of large groups of people with technical skills and knowledge from their home country to another country.

Class Activity

The teacher should lead students on a visitation to some factories in their environment in order to understand the distinction between human capital and physical capital.

Revision Questions

Objective Questions

1. In a rapidly growing economy where human capital development is neglected, there is likely to be:
 - (a) classical unemployment
 - (b) frictional unemployment
 - (c) seasonal unemployment
 - (d) residual unemployment
 - (e) cyclical unemployment
2. The effect of brain drain on a country's economy is:
 - (a) deskilling of emigrants
 - (b) skilling of emigrants
 - (c) reskilling of emigrants
 - (d) unskilling of emigrants
 - (e) semi-skilling of emigrants
3. In arresting brain drain:
 - (a) emigration can be encouraged
 - (b) emigration can be discouraged
 - (c) emigration can be delayed
 - (d) emigration can be enhanced
 - (e) emigration can be cancelled
4. Some of the factors affecting human capital development are:
 - (a) education and training
 - (b) improved health facilities
 - (c) promotion at due times
 - (d) technological improvement
 - (e) all of the above
5. The Human Capital and National Development hypothesis is aptly stated by:
 - (a) Harbison
 - (b) Robinson
 - (c) Meyers

- (d) malthus
- (e) smith

Essay Questions

1. (a) Explain the term brain drain.
- (b) Highlight the economic effects of brain drain.
2. Distinguish between human capital and physical capital.
3. Explain brain drain and its effect on the Nigerian economy.
4. Mention the factors affecting the efficiency of human capital.
5. Explain the theory of human capital as put forward by Harbison.

Glossary

Capital: Wealth set aside for the production of further wealth.

Human capital: Investment in individuals to improve efficiencies.

Physical capital: Infrastructure set aside for production.

Brain drain: Large-scale emigration of a large group of individuals with technical skills.