

## THE EVOLUTION OF HUMAN CAPITAL THEORY

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**Introduction.** 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.

**Methodology.** To achieve the goal of the work, methods of theoretical research, scientific abstraction, comparative analysis and synthesis methods were used.

The essence of theoretical research is to study the origin and development of the theory and substantiate its internal logical mechanisms. Studying the works of various theorists, an attempt was made to highlight their most important aspects, summarize and present in this paper. For this purpose, all repetitions were excluded by the methods of scientific abstraction and comparative analysis, and a comparative analysis of the approaches of different theorists was carried out. An analysis was made not only of one of the founders of this sphere, but also of almost all works related to the HC, since over time they, developing their thoughts, sometimes contradicted themselves, or came to new conclusions as a result of new research work.

In other words, a study of world literature was conducted, within the framework of which the views, ideas of various theorists were discussed and analyzed. An attempt is made to understand why economists in a given historical period had such views on human capital. They have been summarized and classified in chronological order. In general, the work is inductive. By studying the opinions and works of various theorists,

an attempt was made to give one general definition of HC, reflecting modern economic realities. The method of theoretical research served as the basis for presenting the evolution of the perception of the term "human capital". Economic phenomena evolve over time, but the terms that reflect them remain essentially the same. For example, we can calculate how GDP, corporate profits, and household spending change across countries, but as concepts, they remain the same in the long run. Outside this pattern is HC, which is changing quite quickly in its content and structure. That is why it is necessary to study the evolution of the term HC. If we compare the explanations or definitions of HC in the initial and late stages of evolution, we will see that in practice we are dealing with fundamentally different concepts.

**Literature review.** The conceptual foundations for the formation of the HC theory were present in the works of classical economists, such as: W. Petty, A. Smith, D. Ricardo. They put forward the role of the concepts of labor and human abilities in national wealth, preparing the scientific ground for the further development of the concept of HC. Based on many years of studying HC, L. Thurow summed up: "HC is the ability of a person to produce goods or provide services" [Turow, 1999, 432]. A person who does not use these abilities is also endowed with HC. Along with this, L. Thurow notes that HC is not an innate ability. Natural inclinations and abilities are the basis for the accumulation of HC. Among the abilities, L. Thurow singles out the main hereditary economic ability [Turow, 1970, 116-117]. According to him, investing in economic skills is not just an investment. This is an investment that affects all other investments made in HC. Thurow also argues that investment, production and consumption of resources are products of human activity that contribute to the continuity of life. By analogy with the capitalization of material assets, distrust of the new concept of HC gradually disappeared.

T. Schultz wrote: "All human abilities are either innate or acquired. Each person is born with an individual combination of genes that determine his natural abilities. Valuable qualities acquired by a person that can be improved as a result of investments, we call HC" [Schultz 1971, 17].

In a large economic dictionary edited by A. N. Azrilyan, HC is education and qualifications acquired in the production process, knowledge and skills available in the labor force [Big Economic Dictionary, 1994., 470].

According to the definition given by Y. Ben-Porat, HC is a fund whose function is to provide labor services with generally accepted units of measurement. However, the capabilities of a person as capital differ significantly from the physical properties of a machine or a production line, since capital is embodied in a person and is a very specific resource [Ben-Porath, 1967, 352-365].

F. Machlup proposes to combine primary and acquired (improved) abilities. They differ from each other in productivity, as well as investments that improve the physical and mental abilities of a person. These are the improvements that translate into HC [Machlup, 1982, 24].

Later, Western theorists discussed the composition and structure of human abilities that are profitable to capitalize, reflecting on the order and expediency of investing in them.

M. Kritsky defined HC as a specific type of human activity that goes beyond the consumer and productive capabilities of a person and leads the historical movement of society to the state of a given period of time [Kritsky, 1991, 95].

Developing the views of M. Kritsky, L. Simkina considers HC one of the most important components of the modern innovative economy. L. Simkina puts forward the idea of absolute and relative types of enrichment of human activity through the development of needs and abilities of a higher order. According to him, the production type of the HC consists of 2 main parts: work and mental abilities. Moreover, these 2 parts can act as functions of one entity or functions of different entities united in one economic association [Simkina, 2002, 32].

L.I. Abalkin considers HC as a combination of innate abilities, general and professional education, acquired work experience, creativity, mental and physical health, activity motives (motivation) that ensure the flow of income. Based on this, socio-economic progress is primarily determined by the new knowledge that employees of the research sector receive in the course of their continuous professional development [Economic Encyclopedia, 2004, 64].

V. N. Kostyuk, exploring socio-economic processes, characterizes HC as an individual ability of a person, which allows him to successfully act in conditions of uncertainty [Kostyuk, 2014, 23].

S. M. Klimov, exploring the intellectual resources of an enterprise, defines HC as a set of human abilities that allow their owner to receive income. This definition brings HC closer to other types of social production capital [Klimov, 2006, 5].

The socio-economic form of human capital is determined by S. A. Dobrynin and S. A. Dyatlova, noting that in a market economy, HC is a productive potential and is a creative, driving factor in social production [Dobrynin et al., 1999, 39].

Separate works on HC appeared in Armenian literature only in the 21st century. Our contemporaries G. Gharibyan, F. Maylyan, A. Hovhannisyan, A. Kharatyan, R. Isahakyan, having subjected the HC to a deep analysis, touched upon the issues of its development, reproduction and evaluation in the RA, the features of its implementation.

**Scientific novelty.** In the article, a stage-by-stage classification of the evolution of the HC theory by chronology is carried out and a comparative analysis is carried out. Based on the results of the analysis, 5 stages in the development of the HC theory were identified, the works of representatives of this direction at this chronological stage were considered, a comparative analysis was carried out, the stages were given names based on their characteristics and chronological features. The essence of the modern term HC in the author's interpretation is presented.

*Pre-industrial phase (before the 19th century).* Of course, investments in labor were made in pre-industrial times, but they cannot be called investments in HC. Despite the fact that economists began to pay attention to the cost of labor as early as the 18th-19th centuries, human abilities were not considered as capital, and land was considered the most important factor of production. The main reasons for this were the agrarian nature of economic activity and the traditional social relations corresponding to it in their forms. Education at that time was not available to the wide society. University education in Europe has been influenced by the Catholic Church and royalty for centuries.

The concept of "human life force" is first encountered in the studies of W. Petty [Petty, 1940, 324]. He considered this concept as an element of national wealth, on the one hand, and as its factor, on the other.

A. Smith considered the superiority of human abilities over the material factors of production. He wrote: "The increase in the efficiency of useful labor depends first of all on the skill of the worker, and then only on the machines or implements with which he works." D. Ricardo emphasized the role and importance of education in terms of economic growth.

*Universal education phase (the first half of the 19th-20th centuries).* Despite the fact that A. Smith spoke about the creative abilities of a person, and about human knowledge as an important component of the productive forces, K. Marx did not consider it a decisive factor in production until the beginning of the 20th century. In other words, the educational or skill requirements of the workforce were not high, and workers did not seek to acquire specialized knowledge to perform simple functions. Therefore, during this period, the basic abilities and readiness of a person for work were valued, and not his potential, talent or accumulated knowledge.

In the US and Western Europe, the situation has changed with the advent of industrial society, the development of technology and the emergence of innovative entrepreneurship. Demand for social activity, knowledge, human resources has formed [Schumpeter, 2008, 1934]. As a result, in the late 19th - early 20th centuries, professional universities were formed under the auspices of the state. After World War I,

more and more economists began to talk about the role of knowledge, skills and abilities in the economy as a separate resource, without which the development of the economy is impossible. However, the concept of HC was not formed at that time, although the world economy already needed investments in this direction. Many economists believe that the Great American Depression was the result of this. Considering that this problem was solved after World War II with the help of the Marshall Plan and investments in innovation and science, it is hard to disagree with this idea.

K. Marx, emphasizing human potential, argues that the labor force is characterized as a combination of physical and mental abilities of workers that are used in the production process. Later, K. Marx argues the importance of investing in the development of the workforce.

The process of forming the theory of HC is a process of successive transformations of the idea of human abilities: labor force - labor resource - human resource - human capital. It should be noted that there is still no universal view on the definition of each link in the above chain. According to the traditional approach to the labor force, this is the ability of a person to work, the totality of physical and mental abilities that a person uses in the course of his activity [Marx, ch. 4, 5]. In this sense, labor can be skilled or unskilled.

Many experts believe that modern economists do not appreciate K. Marx in relation to meaningful assessments of "human capital" [Elmeev, 2003,. 319-351]. We do not share this opinion. Working in the era of industrial society, K. Marx even then called a person the main capital. Moreover, K. Marx also emphasized the role of free time in terms of developing human abilities and skills and, in fact, predetermined the importance of the creative nature of HC. It's just that in the post-industrial period the concept of "HC" receives new meaningful definitions.

In the works of the German economist F. W. List, the main source of national wealth is intellectual capital: discoveries, achievements, etc [Roussakis, 1968]. According to F.W. List national prosperity does not depend on wealth, but on the productive forces that create it. English economist John Ramsey McCulloch, developing thought D. Ricardo argued that the worker is the most important participant in the work process and the owner of the product. The roots of the ideas of social relations go back to the reflections of McCulloch<sup>1</sup>.

A. Marshall introduced the category of "personal capital", referring to a person with mental, physical abilities, abilities, skills that increase labor productivity [Marshall, 1993,.124].

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<sup>1</sup> On the beginnings, successes, special subjects and the importance of political economy. – M.: 1934.

Beginning in the early 20th century, HC researchers made the first attempts to quantify HC in an economy. They began to use mathematical and statistical tools to measure the value (price) of human abilities, the impact of the education level of society on economic growth, and the contribution of the family to improving the mental and physical abilities of a person. L. Dublin F. Crami, I. Fisher, S. Rol Forsyth, whose ideas have found wide application in the development of the modern theory of human capital, play a huge role in these studies.

*Industrial phase (1960-1980):* Y. Mints plays an important role in the empirical assessment of HC and the study of the income received from it. G. Becker mentioned this in his 1992 Nobel speech. In 1974, in his work, the indicators of the empirical measurement of HC were sufficiently expanded. To them, in addition to the duration of training, work experience is added, calculated from the age of graduation. This is a rather rough method of calculation, but very useful, as it is an indicator of the improvement of a person's skills in the workplace. The formation of the theory of human capital as a separate branch of the economy is associated with the work of foreign researchers in the 60s of the second half of the 20th century. This was facilitated by socio-economic events and conditions of the second half of the last century:

1. Transition to innovative production as a result of scientific and technological progress. This has led to an increase in the need for skilled labor and an increase in its role in the production process.

2. As a result of significant changes in production processes, changes have taken place in various spheres of public life, and the share of intellectual, skilled labor in the cost of final products has increased.

3. Acceleration of the processes of humanization of socio-economic relations in the developed countries of the world, stabilization and strengthening of the idea of human value.

4. Accumulation of the potential of the theoretical and methodological concept of HC within the framework of world economic thought, which made it possible to create the theory of HC in the new socio-economic conditions as a separate scientific direction.

5. Development of an expanded concept of the term capital, which allowed people to consider knowledge, experience and skills as capital goods.

The founders of the modern theory of HC are representatives of the American school T. Schultz and H. Becker. The first definition of human capital belongs to T. Schultz. This definition is found in his publications "Capital Formation by Education" [Schulz, 1960, 25]. (1960) and "Investing in Human Capital" (1961). In "Investing in Human Capital" Schultz writes: "The concept of capital comes from something that actually exists that has the economic ability to provide services that have a certain value

in the future. This idea allows us to divide the above into human and non-human capital'' [Schulz,1961, 3].

Schultz's concept of HC boils down to the following statements:

1. MK is an additional source of income, which is created on the basis of knowledge, skills and abilities.
2. Education is a form of capital that is an important factor in ensuring economic growth, and at the same time a separate source of economic growth outside the institutional environment.
3. Educational capital is an integral part of human capital
4. Education as capital is a means of future income and satisfaction.
5. To improve the quality of the workforce, it is necessary to invest in education and health.
6. Investment in education is an important prerequisite for further economic growth.

H. Becker developed the HC theory. He has perhaps the greatest contribution to the theory, as a result of which he is considered the founder of the HC scientific school. In 1962, in his publication "Investing in Human Capital", he writes that HC is formed as a result of investing in a person. He considered education, healthcare, migration, information search to be the main ways of investing [Becker, 1962, 14].

H. Becker distinguishes 3 main forms of knowledge: general knowledge, specific knowledge and other types of knowledge [Becker, 2003, 672].

General knowledge is formed in the process of family education, in secondary and higher educational institutions. Income from public knowledge is received by the owner of knowledge or members of his family, who are direct participants in the formation of this knowledge. Special knowledge or special HC is formed and accumulated in the course of work at a particular workplace. It can be likened to the experience gained by a person in an enterprise. The contributor to specific knowledge is the owner of the knowledge and the household of which the individual lives. Other types of knowledge (other HC) are formed as a result of a person acquiring skills when working with information and services in the direction of finding a more promising job for this specialist.

The scientific community has duly appreciated scientific research in the field of HC and its importance in terms of the development of the world economy. T. Schultz [Schultz, 1971, 19] in 1979 and G. Becker [Becker, 1964] in 1992 were awarded the Nobel Prizes for achievements in the field of HC theory, which, on the one hand, indicates the leading role of human capital in the modern economy, and on the other hand, that it is relatively new subject for study.

*Postindustrial phase (1980-2000):* At this stage in the evolution of the classical theory of HC, the world has undergone quite noticeable changes, which manifested themselves in 4 main trends [Grusky, 2001, 3–51]:

1. Development of the service sector or development of the service economy [Bell, 1999], (1970s) [Powell et al., 2004, 199–220].
2. Demand gap between skilled and unskilled labor in industrialized countries (late 1970s)
3. Expansion of secondary vocational and higher education, increasing the role of skilled labor [Castells, 2010, 423].
4. Changing the role of educational diplomas, certificates and degrees. The above has become a new form of ownership, which began to value HC, they also contributed to the standardization of HC

Along with technological progress, information began to be perceived as a factor of production, and knowledge, education, skills and experience were finally entrenched among traditional types of capital, both in the perception of employers and employees. An economic school has been formed, the followers of which believe that the educational capital of the population can serve as an important component of national wealth and increase the country's competitiveness. Representatives of this school are M. Berger, P. Earl, K. Sabirianova, A. Anikin.

So, in the 1990s. Studies have begun to be published that put HC at the center of economic growth. On the one hand, these studies criticized the traditional definitions of HC, on the other hand, they argued that economic growth is influenced by socio-demographic indicators of the population and cultural acquisitions. For example, school performance has been shown to have a stronger impact on GDP growth than traditional measures of years of schooling [Lee et al., 1995, 219–225].

*Technological phase (21st century).* J. Heckman criticizes politicians and economists for attaching excessive importance to institutional education, ignoring the long-proven role of non-institutional elements in the EU. We are talking about such phenomena as family, social relations, etc. Based on statistical data, J. Heckman shows that the formation of IP is a complex and dynamic process, and investing in it at the early stages of its formation leads to a huge synergistic effect. Moreover, one skill breeds another skill, one ability leads to another ability, and investments made early in life are more rewarding than investments made later in life.

J. Heckman and P. Carneiro studied the benefits of investing in the HC of American citizens, in the case of current expenses [Heckman et al., 2003, 77–239]. Americans overinvest in in-school and after-school programs but underestimate the importance of investing in early childhood education. In addition, American society invests very little in the health care of children from 0 to 3 years of age and therefore

should invest more in the future [Heckman, 2000, 3–56]. It has also been proven that, on average, the society benefits much more from investing in HC than the HC owner himself.

The concept of HC today is quite broad and has many principles of classification by micro, meso and macro levels.

Today, more attention is paid to social capital, as well as cultural capital, which, in addition to the traditional elements of HC, also includes scarce competencies [Bourdieu, 1986, 46–58], such as decision-making, effective teamwork, time management, prioritization, etc. Hence the growing interest in different human strengths and their impact on economic growth. Theorists began to pay attention to the spiritual and physical health of a person, the value system, job satisfaction, and even the level of happiness [Gennaioli et al., 2013, 128, 105–164].

The World Bank, the World Economic Forum and the UN publish in their annual reports the human development index for each country, which, in our opinion, is the most acceptable method for assessing human capital and speaks of human capital as an important economic category and the main driver of economic growth.

The theory of human capital is also of great interest for the economic growth and development of the Republic of Armenia, and even today some researchers are discussing the problems of reproduction and implementation of human capital in the Republic of Armenia. In the Republic of Armenia, increasing investment in human resources (health, education, problems of improving living standards) is vital for economic growth and development, and the practical implementation of the main provisions of this theory today has no alternative.

Summarizing the above, it is possible to define HC as a set of innate and acquired human characteristics, knowledge, skills, experience and value systems formed in a certain institutional environment.

**Conclusion.** Thus, from a chronological point of view, we divide the evolution of the HC theory into 5 main phases. Each new phase in the evolutionary development of HC does not exclude previous one, but continues them, and changes in economic realities often lead to the emergence and formation of new theories, or the transformation and rethinking of existing directions. In this regard, the HC theory is also no exception. Human knowledge and skills have always been important in all economic systems. Changes in the economic realities of recent decades have led to a rethinking of the role of a person, when a person begins to be considered both as the main factor and as the ultimate goal of economic growth and development. The changing role of human has made many theories even more anthropocentric, causing human abilities to be mistaken for capital.

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**Firuz MAYILYAN, Knarik YEDIGARYAN**

**The evolution of human capital theory**

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The development of the leading countries of the world has led to the formation of a post-industrial economic system based on knowledge, innovation, global information systems, a new quality of education, and new technologies. One of the pillars of the new economy is human capital, which is an important factor in the socio-economic development of modern society.

There are many definitions of the term "human capital". Summarizing the definitions existing in the economic literature, we can say that human capital is a stock of health, knowledge, skills, motivation accumulated as a result of investments, which is used in the labor process, ensuring productivity and income growth.

The theory of human capital was formed within the framework of the conceptual foundations of the new classical theory and was further developed by various researchers who enriched the theory of human capital with the achievements of institutional, behavioral, evolutionary and synergetic theories.

The origin of the theory of human capital was associated with a rethinking of the role of man in the post-industrial economy, since a person could no longer be considered as an "appendage" of capital. If in the pre-industrial period land was the most important factor of production, and capital in the industrial economy, then human capital becomes the most important factor in the post-industrial economy as the paradigm of development of economic growth, human intellectual and creative potential changes. abilities become a source of development.