

HUMANE CAPITALISM AND HUMAN CAPITAL: THE ECONOMIC CALCULATION FUNDAMENTALS

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Abstract

Capital structure, whatever its form, derives from the various resources used in order to make profit. Such structure undergoes constant change and is subjected to the two forces acting on a market – supply and demand. A sharp switch in the consumers' preferences might lead to severe changes on the market, on the one hand the elimination of some economic operators and on the other hand others' unexpected and sudden success. Thus, phenomena occurring in a given economy can fully change the way resources are allotted, as well as their value and efficiency at a given time.

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INTRODUCTION

Investments in human capital are, perhaps, one of the most risky exploits of various resources. Time is a decisive factor in the decision to invest, as well in its efficiency evaluation and measuring process. It is highly possible that, when the training of an individual is completed for a certain activity, such activity is no longer required on the market – at all or at a significantly lesser extent – which renders the investment quite inefficient. It requires a long time and a good forecast of future market conditions for individuals to specialize in a field that would be profitable both for them and for the

economy in its entirety. Conversely, human capital depreciates rapidly, whatever the qualifications and competences, and reaches a point where it is still useful only following additional investment, which generates unforeseen costs and lost time that could have been used for a more lucrative activity.

According to Cosmin Rogojanu (2000), human capital is divided into two categories: productive capital (P) and education capital (E). This classification offers an explanation regarding the human capital's structure.

The comparison of two former communist countries will reveal part of what these changes mean and how they might impact the education system and economies of different states.

Czechoslovakia (today the Czech Republic and Slovakia) and Romania are two states of the former communist bloc abolished at the end of 1989. Both countries built their economic growth based on the development of industry, constructions and steel in Romania, respectively machines, electronics and ferrous metallurgy in Czechoslovakia. Therefore, in both countries, the education system was orientated towards training human capital specialized in the areas related to such industries, respectively engineers and various skilled workers.

Since the early 90s, with the gradual liberalization of markets in these countries, consumer preferences have started to make their presence and effects felt. In both countries, their preferences were increasingly directed towards consumer goods, but the new states resulting from the separation of former Czechoslovakia, the Czech Republic and Slovakia, have maintained to this day some of the industries that were functional. The Czech Republic focuses on the automotive industry, metallurgy, machinery and weapons, while Slovakia is very good in the production of metals and metal products, gas, coal, nuclear fuels and chemicals. In contrast, in Romania these differences in preferences were clearer, many of the industrial complexes going bankrupt, leaving room for the growth and development of other economic sectors. Therefore, while adjusting to the new conditions in the economy, Romania has managed to train specialists in business, engineering and computer science. The excellent training of Romanians, especially in engineering and IT, is proven by the fact that many graduates go to work abroad for large companies in the industry (Microsoft, Google, and NASA). It is well known that Romanians are the largest community of foreign workers in Microsoft Redmond Campus, Microsoft headquarters in Redmond, USA and are highly regarded for their skills and training. Also, some highly valued NASA specialists come from Romania.

Thus, starting from a period when the education human capital was training productive capital specialized in industry, today, with the shift to the market economy, human capital (P) has been oriented towards fields such as business, law or computer

science, which has also triggered a re-specialization and reorientation of the human capital (E), the one that performs such training.

It is an obvious example regarding the effects of centralized planning and not only in terms of education. Sudden changes, triggered by the actual needs of economy, suppressed by the socialist state, have brought a reallocation of resources towards completely ignored fields, which have experienced fast developments and, at the same time, a need for human capital that hard to find in the beginning. At the same time, there were social pressures from those who were losing their jobs and who did not understand why was happening since, a while ago, they had a secure job and production to make and, suddenly, everything was changed with the company going bankrupt and former employees left to do for themselves in the newly established economic environment.

Another problem, besides the impossibility of an economic calculation of the government services and flawed investment in the human capital, is the so-called “intelligence exodus” or “brain export”, respectively brain drain. This phenomenon involves mass emigration of well educated individuals, with good technical or scientific skills. The causes of such phenomenon are divided into two categories: those related to the social environment (political instability, economy in crisis, lack of security in home countries) and those related to personal preferences (the desire to experience new cultures or countries, higher salary, career development opportunities).

The development of human capital

The brain drain history is not new, its early forms existed in Europe ever since the Late Antiquity – name used by historians to describe the time of transition from Classical Antiquity to the Middle Ages. The reasons behind the brain drain at the time were the shutdown of the Academy of Plato by the last Byzantine king, who spoke Latin as mother tongue, Justinian I, in 529. According to the writings of the historian Ahathias, the members of the Academy took with them precious literary and philosophical works and scientific knowledge and took refuge on the territory of the Second Persian Empire (nowadays Iran), under the protection of King Khosrau I. One of the preeminent personalities of the last generation in the Academy was Simplicius, student of Damscius, the last leader of the institution. Apparently, their disciplines continued the Academy’s tradition until the 9th century, which revived the Neoplatonic traditions in the Arabic area. The philosophy underlying these traditions was focused on the spiritual and cosmologic approaches of the Platonic thinking.

Leaping through time to the 20th century, we notice two large periods of massive brain drain.

First, a period of time dominated, in the Western Europe, by antisemitic laws and attitudes which led to the emigration to the United States of America of a large number

of scientists and major cultural personalities such as Albert Einstein (left Europe in February 1933), Niels Bohr (left at the end of 1943 when he was under the threat of arrest given that his mother was Jewish), Enrico Fermi (left for the US in 1938 because his wife, Laura, was Jewish. He is famous for his work at the first nuclear reactor, Chicago Pile-1) or Sigmund Freud (left for the US in 1938).

A second period lasted for almost 40 years, 1922-1961, once the Soviet Union was established and its influence reached the border of the Federal German Republic (F.G.R.).

Following the Soviet occupation, most of those living in the area controlled by the Russians tried to escape the Eastern Bloc, seeking a life of freedom and independence. Until the beginning of the 1950s, the Soviet Union managed to massively hinder emigration by strengthening border control and harshening punishment both for those attempting to free themselves from the communist camp and their families.

In 1952 the Democratic German Republic (D.G.R.) officially closed its borders, but still the border between the East Berlin and the West Berlin was, for a long time, an escape gate for those who did not want to live under the communist regime and thus, until August 1961, when the construction of the Wall of Berlin started, 3.5 million Germans managed to enter the Western Germany, according to Dowty (1989) . This massive flight of manpower was pricey for the Eastern Germany, around \$7-9bn according to the same Alan Dowty. According to Berghahn (1987) , the youth's exodus added some additional DM 22.5bn to the losses in terms of the education provided to them by the state.

Today, brain drain is seen as a highly significant issue for developing countries since many individuals, majored in business, IT or engineering, leave their countries to seek jobs in developed countries in the Western Europe and the US. Given the aging trend of the population in developed countries and the economic crisis that has severely affected developing countries, this intelligence export is likely to grow since developed countries try to cover their manpower gaps from various industries with educated people from other countries. In Europe, the latest expansions of the EU have allowed workers to leave for the Western countries in pursuit of better paid jobs.

Since its occurrence, brain drain has been blamed for two adverse effects on the economies of the emigrants' states of origin. Firstly, states lose human capital and find it impossible to build sustainable economic growth and, secondly, these states are at a significant loss as regards the training of the human capital, which in the end chooses to leave and use its skills working abroad.

Such construal, however, does not reveal the true face of the phenomenon and the causes underlying intelligence export. Such export is, in fact, as Glăvan (2008) shows, part of the natural process of allocating as efficiently as possible limited resources to the production of goods and services. Those well-trained individuals, who leave the country,

do not actually cause so many shortcomings for the economy, as thought, because such individuals cannot be employed by the economies of their countries of origin since they are too trained or over-qualified. The debate on the negative effects of intelligence export does not focus on the distribution of human capital to various countries, but on the institutions and laws influencing its training and distribution.

Thus, developed and developing countries find themselves in a deadlock in terms of brain drain: if the best trained manpower leaves their states of origin, such states lose both the investment in the human capital and risk a higher exodus of those educated and capable looking for higher salaries and successful careers. As Michael Todaro (1996) said: “the irony of the international migration is that the people who migrate legally from poor to rich countries are those who are educated and well trained, namely exactly those that such developing countries do not afford to lose. This effect of brain drain does not bring about only a huge loss of resources, but might become the main hindrance against the future economic progress of poorer countries.”(119)

Because of such departure of educated human capital, the state of origin is depleted of capable individuals and thus the foundations of economic growth cannot be laid. The more those who leave, the deeper the gap between what is intended and what can be done, whatever trained those who are still in the country. In the end, the remaining ones will also leave given the constant decline of productivity, efficiency and, implicitly, earnings and more difficult living conditions.

Since the occurrence of this phenomenon, various measures have been suggested to stop or slow it down, from closing borders for the citizens of former communist countries or payments from the states receiving human capital to policies aimed to encourage people to return in their home countries. The latter included tax benefits, higher salaries similar to those from the states of destination, government aids for businesses or allocation of more resources for education and research. They were, however, in vain, and did not have the expected outcome.

There aren't, however, only negative effects of brain drain. It makes individuals more competitive and it brings about some advantages from their countries of origin.

While the right to free circulation of manpower expands, individuals are encouraged to invest in their education since employment opportunities in good conditions increase and each individual will try to prove they are the right person for the job.

Once abroad, the emigrants, who now are making more money than home, support relatives from the country, constantly sending small or large sums of money. Thus, their families have more money than if those well trained individuals had not emigrated. The money is used for shopping or small investments in the country of origin and its economy is slightly stimulated to grow and develop. In Romania, for example, those left to work abroad have become a good source of income and investment and factor stabilizing financial imbalances. In the first semester of 2012, Romanians from diaspora

sent home about €1.83bn, 10% more than in the same period of last year, and by the end of the year the entire sum reached €3.85bn. The amount is by 2.4% higher than the overall direct foreign investments in Romania in the same year – 2012 – namely €1.6bn.

Moreover, the money sent by workers abroad contributes significantly to the currency of the home state and settles the imbalances from its accounts. The case of Romania is also relevant in this respect. The current account deficit of the balance of payments decreased in 2012 compared to 2011 by 18.9% to €4.25bn. Without this money sent by those who work abroad, it would have been double, respectively €8.1bn.

These cash flows are beneficial for receiving countries as they influence positively the demand and supply of goods and services, technology transfers, investments, trade and, not lastly, it helps the countries to integrate better in the current globalization phenomenon experienced by the world economy.

Emigration of people brings other benefits to the countries of origin. For example, those who leave exempt their governments of the cost of education, defense and social protection for themselves and their families. Instead, they become costs to the country of destination, because there will be a need for new social security, schools, housing, etc.

Human capital is, however, only one component of the economic development. Along with this component, there must be physical capital (money, resources) in order to speak of premises for economic growth and development. Without these two types of capital that can be combined, the foundations for sound development cannot be laid. It may be that a particular region has qualified workforce and able to efficiently produce goods of high quality, but if those people do not have the necessary capital for production investments, namely physical capital, their capabilities cannot be used.

It is very important, therefore, to say that the human capital that left a particular country does not necessarily cause a slowdown or stop of the development pace because such pace might not exist anyway. Since economic development heavily depends on saving and investment preferences of individuals and on the capital accumulated in the past, it is likely that much of the human capital available at a time, in a territory, is unusable. In the absence of needed physical capital even, if there is no phenomenon of brain drain, the low level of development will not improve soon.

CONCLUSIONS

The experience of the former socialist countries, in particular, shows that the emigration of the well trained and educated is not related to the economic growth of such countries. It is very difficult in a state with planned economy to use resources efficiently, inclusively to integrate well or less trained employees on the labor market. Romania's case has clearly illustrated the inability of the domestic economy to employ those well trained in their industries. For instance, medicine schools from Romania are highly appreciated for the quality and training of future doctors and nurses. We are happy, thus, to know Romania succeeds to train its medical staff very well and citizens do not have to be worried about their health. The truth, however, is completely different. Although there are very good doctors and many of them are the trade's elite, they do not have the resources to do their job properly. Hospitals lack many essentials required for basic care: from heat and food to pharmaceuticals and modern medical equipment. Naturally, thus, part of doctors and nurses decides, in the end, to work in another country where resources are available and they are really useful for those who seek help. This experience of former or current communist states shows that this type of policy, namely to stop people who want to leave aboard, fails in the attempt to improve production and wealth in countries employing it.

It is equally true that the accumulation of human capital brings about an increase in the individuals' efficiency and productivity, but only if the complementarity of the physical and human capital is complied with. As we have discussed, however, such accumulation process takes a long time and might prove costly. Costs do not involve only financial issues, but the time, knowledge and efforts spent for such process of capital accumulation both as regards the trainee and the trainer and other resources involved in the entire process.

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