

## ANALYSIS OF HUMAN CAPITAL IN LATVIA IN THE EUROPE UNION CONTEXT

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### Abstract

Human capital plays a decisive role in the growth of each country. In the past the company's competitiveness and prosperity were capital goods and other tangible values, while today, it is determined by people's knowledge, skills and competencies. Effectiveness of human capital in a particular country is characterized by several factors: level of public education, standard of living, income, employment, health care quality, access to lifelong learning, public values, attitude to change, etc. The article analyzes the qualitative indicators of human capital through Human Development Index and European Human Capital Index.

**Key words:** human capital, development, index, competitiveness.

### Introduction

The economic prosperity and functioning of a nation depend on its physical and human capital. Whereas the former has traditionally been the focus of economic research, factors affecting the enhancement of human skills and talent are increasingly figuring in the research of social and behavioural sciences. In general terms, human capital represents the investment people make in themselves that enhance their economic productivity [1].

Human capital is not a traditional type of capital such as financial assets and physical capital. Human capital in its current meaning is what used to be called human potential or human resources. Human capital may be defined also as an individual's collection of human resources including personal abilities, knowledge, skills, time, and energy. Some other definitions of human capital are as follows:

- the stock of economically productive human capabilities;
- the knowledge, skills, competencies and attributes embodied in individuals that facilitate the creation of personal, social and economic well being [3].

Human capital development is dependent on the public interest to invest in its development. By investing more and more resources in human capital development national economic growth is increasing too. It is important to find ways how to attract people to the country to keep them stay and find resources where to make investments, to develop their own human capital and enhance its competitiveness among other countries.

### 1. Essence of human capital

G. Becker characterizes it as follows: the new technological discoveries are not able to benefit the countries in case they have an insufficient number of qualified employees who know how to best use them. Economic growth is highly dependent on synergies of new knowledge and human capital. Therefore, increased spending on education and training are accompanied by progress of technological knowledge in all countries that have reached significant economic growth. He also mentions that education, training courses, medical expenditures, and such qualities as punctuality, honesty are also valuable assets in the sense that all of these qualities improve the health status, increase revenue and add value to give the person a lifetime. As a result, it is entirely in accordance with the concept of capital, as it is traditionally defined, by saying that spending on education, training, medical care, etc. is investment capital. However, this product is a human being not physical or financial capital, therefore people cannot be separated from their own knowledge, skills, health or other values, as it is possible with other types of capital [4].

Due to decreasing number of people and aging society, it is essential not to decrease the value of human capital base and increase its productivity. Therefore, long-term investment in human capital is necessary to ensure employability, improve education and health systems, as well as ensure social welfare and social security, and services of lifelong learning systems.

### 2. Human capital according indexes

The analysis of human capital in the EU countries is carried out on the basis of signifi-

cant indexes: Human Development Index and European Human Capital Index.

The situation in the field of human capital in the EU member states can be illustrated by the indices used by the United Nations to make international comparisons in respect of social development [7].

The *Human Development Index* (HDI) is a strategic element in the new approach. It symbolizes the shift in thinking, even if not fully capturing human development's richness. Human capital development is shown by the so-called human development index, determining the position of the country among other countries of the world, taking into account the average future life expectancy of the population, education, and income, see Figure 1. Life expectancy reflects the opportunity of the individual to live a long and healthy life. This dimension is measured by the average future life expectancy, i.e. probabilistic index, showing the average number of years, which would be survived by a certain generation of people, if mortality rate in each age-group of people would remain the same as in the accounting year. This index is closely related to life quality, i.e. healthy nutrition, good health, and education.

As we see composite measure of health, education and income, the HDI assesses levels and progress using a concept of development much broader than that allowed by income alone. And as with any aggregate measure and

international comparison, it simplifies and captures only part of what human development entails. 169 countries are included in the „Human development report 2010“. The best value of index is 1, but the worst can be 0.

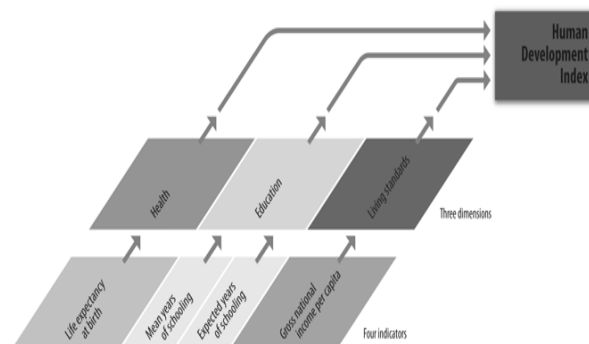


Fig. 1. Components of the Human Development Index [3]

Human development index shows the economic and social impact of human potential development, with account taken of life expectancy, education and income. GDP per capita, calculated according to the purchasing power parity, is one of the most important indices to evaluate the standards of living. According to the human development index, Latvia ranks 25th out of 27 EU countries. The index is lower only in Romania and Bulgaria.

The data presented in Table 1 show that there are differences of human and social development among European Union countries.

Table 1. European Union according to Human Development Index [3]

HDI rank	Development Index (HDI) values	Life expectancy at birth (years)	Mean years of schooling (years)	Expected years of schooling (years)	Gross national income (GNI) per capita (PPP 2008 \$)	GNI per capita rank minus HDI rank	GNI per capita rank minus HDI rank
1. Ireland	<b>0,895</b>	80,3	11,6	17,9	33 078	20	0,936
2. Netherlands	<b>0,890</b>	80,3	11,2	16,7	40 658	4	0,911
3. Sweden	<b>0,885</b>	81,3	11,6	15,6	36 936	8	0,911
4. Germany	<b>0,885</b>	80,2	12,2	15,6	35 308	9	0,915
5. France	<b>0,872</b>	81,6	10,4	16,1	34 341	9	0,898
6. Finland	<b>0,871</b>	80,1	10,3	17,1	33 872	8	0,897
7. Belgium	<b>0,867</b>	80,3	10,6	15,9	34 873	3	0,888
8. Denmark	<b>0,866</b>	78,7	10,3	16,9	36 404	-1	0,883
9. Spain	<b>0,863</b>	81,3	10,4	16,4	29 661	6	0,897
10. Greece	<b>0,855</b>	79,7	10,5	16,5	27 580	8	0,890
11. Italy	<b>0,854</b>	81,4	9,7	16,3	29 619	4	0,882
12. Luxembourg	<b>0,852</b>	79,9	10,1	13,3	51 109	-18	0,836
13. Austria	<b>0,851</b>	80,4	9,8	15,0	37 056	-9	0,859
14. United Kingdom	<b>0,849</b>	79,8	9,5	15,9	35 087	-6	0,860
15. Czech Republic	<b>0,841</b>	76,9	12,3	15,2	22 678	10	0,886

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16. Slovenia	<b>0,828</b>	78,8	9,0	16,7	25 857	3	0,853
17. Slovakia	<b>0,818</b>	75,1	11,6	14,9	21 658	12	0,854
18. Malta	<b>0,815</b>	80,0	9,9	14,4	21 004	11	0,850
19. Estonia	<b>0,812</b>	73,7	12,0	15,8	17 168	13	0,864
20. Cyprus	<b>0,810</b>	80,0	9,9	13,8	21 962	6	0,840
21. Hungary	<b>0,805</b>	73,9	11,7	15,3	17 472	10	0,851
22. Portugal	<b>0,795</b>	79,1	8,0	15,5	22 105	0	0,815
23. Poland	<b>0,795</b>	76,0	10,0	15,2	17 803	4	0,834
24. Lithuania	<b>0,783</b>	72,1	10,9	16,0	14 824	7	0,832
25. Latvia	<b>0,769</b>	73,0	10,4	15,4	12 944	13	0,822
26. Romania	<b>0,767</b>	73,2	10,6	14,8	12 844	13	0,820
27. Bulgaria	<b>0,743</b>	73,7	9,9	13,7	11 139	10	0,795

According to the Human Capital Index Ireland, Netherlands, Sweden, Germany, France and other countries including Poland are characterized by the highest development level. But such countries as Lithuania, Latvia, Romania and Bulgaria have a lower level of human development than the above mentioned countries. The longest further lifetime to live is characteristic for France, Italy, Sweden and Spain. In the field of education the majority of union member states obtain very high values of schooling and Cyprus, Romania, Slovakia and Malta can be considered as exceptions compared to the EU. It is worth stressing that Poland and France are among the EU states, which hold much higher position in ranking of the world states according to HDI than in ranking according to GNP per capita.

Another popular index that characterizes human capital is *European Human Capital Index*. The European Human Capital Index is a relatively new index, as it was established only in 2006. The index looks at the ability of the European Union countries to develop and deploy their human capital. Human capital is defined as the cost of formal and informal education expressed in Euros and multiplied by the number of people living in each country. Specifically the index identifies and defines four types of human capital and analyses the way they collectively contribute to the wealth of European citizens:

- Human capital endowment: the cost of all types of education and training per person active in the labour force;
- Human capital utilization: how much a country's human capital is deployed;
- Human capital productivity: a country's overall consumption divided by all the human capital employed in that country;

- Human capital demography and employment: an estimation of the number of people who will be employed in the year 2030 considering the current economic, demographic and migratory trends [8].

If European countries are ranked on each of the four dimensions and then the rankings are summed the following table results (zero is the best possible score; 48 is the worst), see Table 2. The overall ranking is based on each country's scores in each of the four individual human capital categories.

**Table 2. The European Human Capital Index for Central and Eastern Europe [8]**

Rank	Country	Score
1.	Slovenia	22,3
2.	Lithuania	25,6
3.	Czech Republic	26,3
4.	Estonia	26,8
5.	Latvia	28,2
6.	Romania	29,9
7.	Hungary	30,6
8.	Slovakia	31,7
9.	Bulgaria	32,7
10.	Poland	34,0

Table 2 shows that the highest ranking of the European Human Capital Index is in Slovenia and Lithuania, followed by the Czech Republic, Estonia and Latvia, while the lowest index is in Bulgaria and Poland.

Comparing the European Human Capital Index to Human Development Index we must conclude that the data in both indices do not fully correspond, though certain tendencies exist. In particular, for countries with higher standards of living, higher GDP and people's quality of life, both indices are higher, notwithstanding

the differences in the index calculation methodology.

To determine the human impact on country competitiveness it is important to look at what the relationship of human valuation indices and country's global competitiveness index is, which is one of the most important indices to be calculated each year to reflect the information on the country's economic situation, revealing each country's strengths and weaknesses under a unified system. It helps to evaluate and focus on individual sectors and their dynamics in relation to other countries. Given that competitiveness is a complex concept, 12 evaluation groups (12 pillars of competitiveness) are used for the evaluation of the index calculation, which are characterized by the following areas: institutions, infrastructure, macroeconomics, health care and primary education, higher education and training, goods market efficiency, financial market sophistication, technological readiness, market size, business sophistication, and innovation. Each group includes a number of factors and estimates of the total assessment. The EU countries rankings in the Global Competitiveness Index are shown in Table 3. The analysis of 139 countries around the world is presented in the Global Competitiveness Report 2010–2011.

**Table 3. Rankings of the EU27 in the Global Competitiveness Index 2010–2011 [6]**

Country	Rank	Score
Sweden	2	5,56
Germany	5	5,39
Finland	7	5,37
Netherlands	8	5,33
Denmark	9	5,32
United Kingdom	12	5,25
France	15	5,13
Austria	18	5,09
Belgium	19	5,07
Luxembourg	20	5,05
Ireland	29	4,74
Estonia	33	4,61
Czech Republic	36	4,57
Poland	39	4,51
Cyprus	40	4,5
Spain	42	4,49
Slovenia	45	4,42
Malta	46	4,38
Portugal	46	4,38

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Lithuania	47	4,38
Italy	48	4,37
Hungary	52	4,33
Slovakia	60	4,25
Romania	67	4,16
Latvia	70	4,14
Bulgaria	71	4,13
Greece	83	3,99

The data in Table 3 show that in the EU Sweden, Germany and Finland have the highest rankings in the Global Competitiveness Index, while the lowest rankings are calculated for Greece, Bulgaria and Latvia. Comparing these data with HDI, we can conclude that they are very much similar, namely, in the EU Sweden and Germany are in the third and fourth place in HDI, while Latvia and Bulgaria are in the twenty-fifth and twenty-seventh place in the European Union, but in the world Latvia is the seventieth, while Bulgaria occupies the seventy first place.

In assessing countries' human development, the European Human Capital Index and the competitiveness of the country, we should not simply rely on the dynamics of a separate index of international competitiveness.

All developments should be analyzed by separate categories and even sub-categories, moreover, it should be remembered that the data used in indices are time-aged.

Human capital is a set of knowledge acquired by individuals, which may be productive in economic context, without such capacity growth is not possible, it is therefore important to identify your skills, experience and knowledge, as well as identify the opportunities to enhance all skills, so that they could bring more economic benefits for further development of national economy as only knowledge is what we are able to develop. Today issues relating to human capital are most relevant, as human capital may be measured and analyzed from different aspects. An important factor is the level of human capital development and the level of its deployment in each of the European Union countries because of the differences of human capital development among the EU member states and its deployment.

### Conclusion

Analysing the national economy of Latvia, it is inseparable from the human capital of Lat-

via, both exist in constant interdependence, human capital development results in economic growth through investments in education and enhancement of demography and employment. Human capital leaves an impact on the development of national economy that most closely affects the development of particular sectors of economy, only wise people can most effectively predict which goods or services will be required in the future and whether the production of the goods will be profitable or not. In contemporary conditions rapid changes in new technologies, engineering and communications take place that bring about relevant changes in skills and knowledge area of the employees. The skills acquired in the youth become obsolete and get outdated rather quickly. Therefore, different kinds of updating knowledge and skills become more and more necessary. Since the quality of human capital is determined by both inborn abilities and talents, condition of health as well as the level of education, individual's knowledge and competences, it is necessary to elaborate a unified concept for the country that would ensure the development of human capital not only theoretically, but also reasonably funding the government programmes providing health and education availability.

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