

## Chapter 67

# Human Capital as a Determinant of Long-Term Economic Growth

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### ABSTRACT

*This chapter aims to investigate the importance of human capital as a key success factor to economic growth and modern economic reforms as well as exploring determinants of human capital. Then factors influencing human capital accumulation as well as case studies are discussed to illustrate the influence of human capital to economic growth and reforms. Together with economic reforms, supportive education and human capital development policies, some countries could generate a dramatic technology and economic development. Currently, human capital even becomes crucial because of this technological progress. Thus, modern economic reform needs more intense human capital accumulation to cope with more advanced technology. In this chapter, we investigate the role of human capital accumulation by education and migration process in economic reforms and development of three countries with completely different conditions of economic development.*

### INTRODUCTION

Boosting economic growth is believed to be a way to raise people's welfare in the country. That explains why governments in many countries or economies accelerate growth by releasing policies contributing to economic development. However, each country has experienced unequal degrees of success. Some countries started to develop the economy by using natural resource advantage and cheap labor. Those countries gained only the short-term income and growth rising. There are a number of countries that enjoy long-term substantial development even without abundant natural resources. Those countries have one distinctive factor which constitutes the long-run growth.

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## ***Human Capital as a Determinant of Long-Term Economic Growth***

Human capital accumulation is a reason causes a remarkable progress and long-term growth of economy is. Countries that sustain economic growth even in the long-run effectively implement policies promoting human capital accumulation from the early days of economic reform. Human capital development plays the key role in sustaining growth during the economic reforms. Numerous of research studies confirmed the positive relationship between human capital and economic growth (e.g., Maksymenko & Rabbani, 2011, Awan, 2012 & Asian Development Bank, 2015).

## **HUMAN CAPITAL: A KEY OF SUCCESSFUL ECONOMIC DEVELOPMENT**

Human capital is referred to abilities and skills of human resources of a country (Eigbiremolen & Anaduaka, 2014). Also, human capital is defined as a set of skills and competences possessed by the labour force and which have a direct positive effect on the level of economic development (Olimova, 2010). With the combination of knowledge, skills and abilities, a person could improve his or her productivity and become valued human capital, which could finally contributes to economic development. A country with human capital accumulation is able to achieve higher level of economic development. In research studies, years of education are the proxy of human capital accumulation. Higher educated people earn comparative advantage in understanding and adapting technology and ideas into production process (Ogujiuba & Adeniyi, 2005).

There are a number of studies that link the economic growth to human capital accumulation. According to Growth Theory, human capital plays a key role in accelerating economic growth (e.g., Lucas, 1988 and Mankiw, Romer & Weil, 1992), numerous evidences indicate that long-term economic development has to be associated with human capital accumulation (e.g., Benhabib & Spiegel, 1994 and Asian Development Bank, 2015).

## **Education: The Way to Generate Human Capital**

The most influencing way for human capital accumulation is improving education. Lucas (1988) proposed the growth theories in which sustained long-run growth of income per capital could be explained by the prospect investment in human capital. Many countries start development by concentrating on education experienced and are greatly successful in income accelerating and economic growth.

It is widely known that education attainment could improve labor's skills, knowledge and productivity (Kozlova & Ushakov, 2016). Policymakers in most countries attempt to improve education to raise economic growth. However, the outcomes of education policy on human capital development in each country are possibly different, as evidenced by unequal quality of education and economic development. In this section, detailed relationship between education and human capital is explored in order to know the key factors linking education and human capital, which leads to productive human capital to accelerate economic growth.

## **Education and Human Capital in Theory**

In the past, economic growth focused on tangible physical capital increase while labor was only an endowed factor of production. Output could be raised by investing on physical factors, e.g., machines and equipment. Presently, the importance of human capital for economic growth is fully confirmed. Human

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