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THE INFLUENCE OF HUMAN CAPITAL ON THE QUALITY OF THE WORKFORCE AND HUMAN DEVELOPMENT

1. Introduction

This paper analyses the problems of human capital and human development in contemporary world. For a more equitable society all individuals independently of their socio-economic background shall have the equal possibilities to improve their abilities to execute professional functions and to make a profit for themselves from their professional activities. The changes of state policy, of attitude towards state's role in economic process and the liberalization in economic life are not only the characteristics of transition countries reforming their planned economy to market oriented system. The same changes are observed in all developed countries, the difference being that it is mostly economic-driven and not political process.

In the 90-ies major European countries applied the liberal model of flexible employment policy, priorities of which are attributing to regulation of state's budget deficit and inflation. The result of this was the growth of unemployment in middle of 90-ies initiating the new wave of employment regulation. The intervention in job creation process was in two levels: national and supranational because of incapacity of governments to resolve their problems in the context of general globalization process, necessity to open their economy, structural reconstruction of economy because of competitiveness reasons. The new factors to influence the governments' attitude to employment are related with opening of national markets and enlargement of social dimensions of human development. The guidelines for the new reforms take account of several new factors: evolution of globalization process and the developing intervention of supranational structures in national economic policy, dislocation of production in Europe and outside Europe and other developed countries, the free movement of labor in global scale.

Human capital and its improvement is looked at as economic factor from point of view of individuals, of multinationals and of countries but each of this economic subjects focuses on different dimensions through the prism of their own interests.

2. Theoretical approaches to analysis of human capital

The notion of human capital as category was developed only in second half of 20th century, but we can see some elements of human capital concept in classical theories. For this reason the approaches to analysis of human capital can be divided in two groups:

- The classical theories. The earliest theoretical interest to human capital can be viewed in Renaissance period. William Petty (1623 – 1687) proposed some calculations for estimation of the wealth. Petty used his method of “political arithmetic” with the aim to estimate the wealth and its elements for England. The first step was the calculation of expenditures of population per year: the norm of expenditures per person was known (4,5 pence per day), this number was multiplied by the number of inhabitants. So result was 40 million pounds. The next step was based on the presumption that the expenditures are

formed by income. The income from capital and land was known (15 million), the income of labor force could be calculated (expenditures of population /=40million/ - income from capital and land /=15 million/ = 25 million). The last step: estimated value of national wealth (value of houses, ships, land, gold stock etc) was 250 million, this wealth consisted of capital and land, two factors of production. In this way the labor force (the third factor of production) must be viewed as specific kind of capital and the equitation can be:

$$\frac{\text{National wealth 250 million}}{\text{Income from capital and land 15 million}} = \frac{X (\text{value of population})}{\text{income of labor force 25 million}}$$

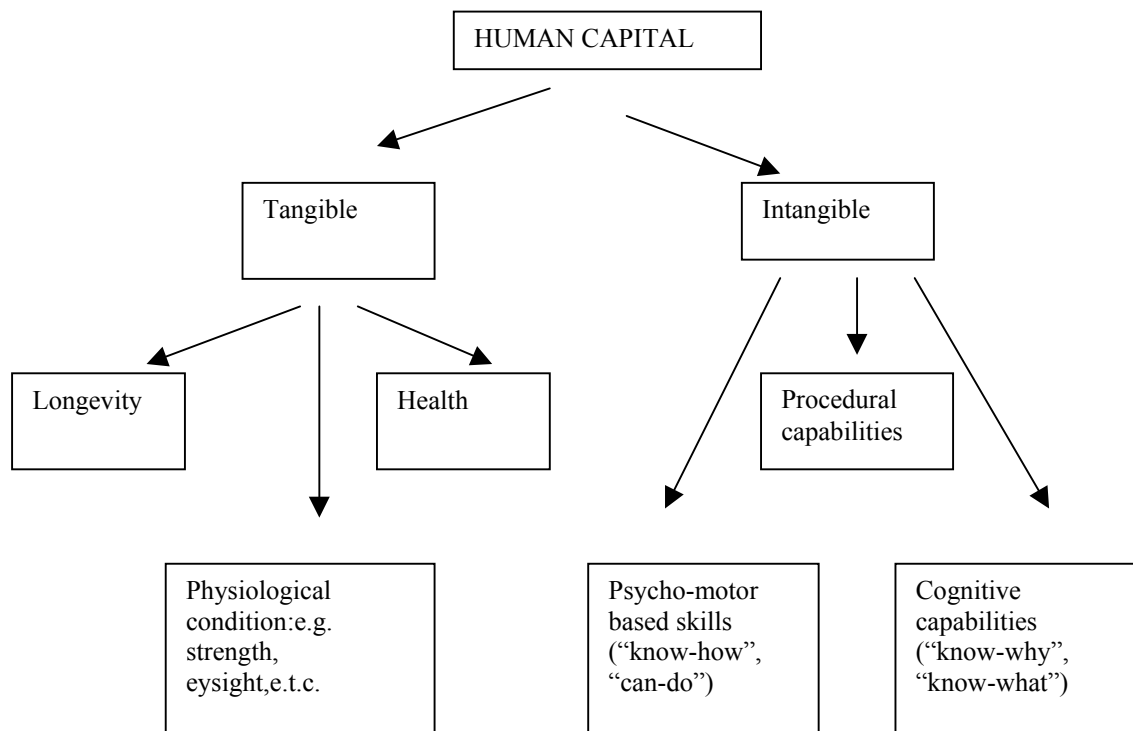
That means that value of population is equal to 417 million and, if we added national wealth 250, we receive the real national wealth¹. This approach of Petty shows the new for the time of capitalism attitude to population and labor force : they are considered as one kind of source of income and wealth. This approach is more visible in concept of Adam Smith (1723 – 1790). As representative of classical school Smith gives 3 clearly defined lines of human capital: at first, the labor force is considered as one expensive machine and as machine it must give revenue in the form of income, secondly , the qualification is mentioned as one of elements of fixed capital (the fixed capital brings the revenue to owner) and thirdly, Smith showed the differences in wages (the most educated must be paid more because of his expenditures for his education)².

- The major trends of concept of human capital in modern theories. In development of human capital theories two schools can be identified . The first one is the microeconomic approach. The main authors are Gary S.Becker, Jacob Mincer, Kevin M.Murphy, Masanori Hashimoto etc. the basic idea of all this concepts is that particular individual takes a profit for himself. The other school is the macroeconomic approach with main authors such as Robert Lucas, Moses Abramovitz, Robert M.Solow, Trevor W.Swan etc. Franc Knight showed that contrary to revenues tendency to diminish, improvement of total amount of knowledge of society promoted the economic growth. Even T. Paul Schultz who is more representative of microeconomic approach with his analysis of health and education impact on society showed the influence of brain drain to economy. All the representatives of this group considered that the development and economic growth of different countries is dependent of human capital.

Particularly interesting is the scheme given by Paul A.David:

¹ Petty W., Economic Writings, Ed.by Hull C.H.Cambridge, University press, 1899

² Smith A., An Inquiry into the Nature and Causes of the Wealth of Nations, vol.1, Oxford, Clarendon, 1976



Design 1. Structure of human capital

Source: David P.A. with assistance of Goddard Lopez J.G., Knowledge, Capabilities and Human Capital Formation in Economic Growth, New Zealand Treasury Working Paper 2001, 01/13, June, P. 2

This scheme makes the accent on the capabilities to labor force, its elements to be able to make required actions.

3. The main problems of quality of workforce from point of view of human capital positions

The human capital from point of view of employer is the quality of workforce and its main components are:

- Health,
- Nutritional quality,
- Education.

All these elements can be the capital not only for their owner (workforce) but also for their user (employer or State in general). For this reason two principal problematic groups of employment appear:

- Young persons. In sense of human capital this group shows its insufficient background for employment; the young persons, especially in age group 16 – 18, are unstable as personalities, not mature enough, with low level of responsibility, without professional experience and qualification. Each investment in this kind of human capital has low rate of return (the employer can't be sure that the investment in human capital will bring profit for him because of instability of this kind of workforce) in the same time when the risk level is high (the employer can't be sure that the educated young persons in his firm aren't going to competitors). The problems of this group of employment can be resolved only with state intervention, with special training programs aiming to provide the professional experience, with organization of internships during the studies programs. Professional

experience can be as one positive factor to improve the human capital and possibilities to find the job for this problematic group.

- Long term unemployed. The problem of employment of this group is difficult to resolve because a long term unemployed lost his human capital during the period of unemployment, when his capabilities were not used, the longer is this period, the bigger are the losses. Sometimes these losses are irreversible. Long term unemployed are a problem group of employment in two aspects:

First, social demographic aspects: the concerned people are without qualification or with low level of qualification (that means, the level of development of his human capital is very low). Mostly long term unemployed are aged persons and this means that their flexibility to improve their human capital is low too.

Second, requirements of employers: the employers give preference to persons changing only job place or to recent unemployed (that means, they are looking to employees with full capacity of human capital or to persons who has not lost their human capital).

The possibilities to resolve the problems of this group of unemployed are very problematic. Without state intervention those problems are not solvable. The most frequent programs for this problem group are with aim to save the obtained qualification of person (prevent from losing in his human capital) by professional improving, or additional qualification. The next is the direction to obtain the abilities to work (to prevent the representatives of this problem group losing their capabilities to work, it is necessary to increase their motivation to do something and to adapt to the market requirements). Another version are the programs of reinsertion to work (like in France of 90-ies) when State paid a certain part of salary for long term unemployed employed in firm.

As was mentioned previously, the long term unemployed are losing their human capital and these losses can be irreversible. For this reason in most developed countries the minimal revenue of insertion or "saving net" is installed. In countries of Central and Eastern Europe during the transition period the problems of long term unemployment appeared for the first time because of structural changes. For this group of countries a new tendency is observed that the long term unemployed migrate to rural areas. In this case the agriculture obtains the new role: the social role (to insure the nutritional minimum for this group of population). From this point of view, the accession of countries of Central and Eastern Europe to the EU is not the favorable fact because of necessary diminution of agriculture and the restrictions of common agricultural policy.

As we could see, the most problematic groups in terms of employment need State's intervention and special employment policy. That is in interest of particular individuals and in interest of State's economy because of revenue to society probably brought by unemployed finding employment. At the same time the competition in global scale is one of major factors influencing the changing role of government. The process of economic liberalization is covering practically all principal groups of countries. That means that the priorities of government regulation are changing too. The correlation between the rates of inflation and unemployment are showed in the table:

Table 1

The trends of inflation and unemployment in OECD countries

	Unemployment rate	Inflation Rate
1970 - 1974	2,5	8,2
1975 - 1979	4,3	10,1
1980 - 1984	6,9	9,0
1985 - 1989	7,7	4,0
1990 - 1994	8,8	3,6
1995 - 1999	8,2	1,8

Source: OECD Economic Outlooks

During the previous period of development the state's policy (so called "dirigisme") was oriented to create the new jobs, to balance the employment regardless the inflation considerations. This policy, demanding considerable amounts of state finances, provoked the apparition of chronic budget deficit and increasing level of inflation. The necessity to change the orientation of state's regulation mechanism is evidents in the context of deep economic crisis and the requirements of rapid internationalization and globalization process. The second half of 80-ies saw flexible employment policy. As we can see, the result of Keynesian regulation was the low level of unemployment and as consequence – the high level of inflation. Once the priorities for State are changed to regulate the inflation, the unemployment rate began to rise and the inflation started to fall. In result we can observe the inverse situation.

The policy having the aims to restrain the budget deficit is opposite to Keynesian model of demand driven growth. If government wants to increase budget revenues, it is important to raise the tax revenues from taxes paid by companies and by customers. At the same time the subsidies for enterprises, social benefits must be restricted. The impact of budget restrictions on unemployment is larger if the tax rate is high. The impact on the income level is contradictory. The real wages level can be the same as in previous years due to reduced inflation, but the level of income for population can be influenced by reduced governmental transfers and social programs. We can say the same about the restrictions on duration of social transfers and unemployment benefits. And it has direct influence to development of human capital.

4. The main factors influencing the development of human capital and human development

The necessity to ensure adequate profitability and growth at the level of particular firm, country or on the level of region becomes the driving force of economic development. All those processes are linked with several very important factors which indicate the main trends of development for individuals in sense of human capital and for people in sense of human development.

- Technological changes.

The introduction of labor saving technologies, the priority to cost reduction through rationalization of production, automation and sub-contracting are only some elements of this process. The necessity of cost saving is translated mostly in labor saving technologies and replacement of production units to other regions with lower costs of labor. The technological changes resulted in desindustrialization of developed countries with some substitution of industrial production by development of services. At the same time the disappearance of work

places in industry can not be compensated by new jobs created in service sector and this requires significant changes in human capital.

- Globalization.

One typical characteristic of contemporary economy is the globalization process, which is considered as a variety of aspects of economic activity, including: a) the ability to take advantage of opportunities anywhere in the world, b) the capacity to move capital and source/distribute products/services in other countries, c) a commitment to transnational management of factors of production, d) the capability to successfully market and/or adapt to specific market a portfolio of factors of products/services, e) the ability to be simultaneously active in a number of countries by members of alliances or network partners³. As we could see, the social aspects are very negligible in this definition, the social dimension of globalization is seen only as one of factors of production.

Globalization must be qualified as permanent process and not as status or situation. The development of multinationalization, the mergers, acquisitions, strategic alliances are only some elements of economies of scale, of strategies to achieve low products costs, high profit and economic eminence in world business. All these processes facilitated by the wave of economic liberalization including not only the changes of role of State but different levels of encouragement of foreign investment and international movement of capital, deregulation of financial markets, lowering of tariff and non tariff barriers to international trade.

Indeed the globalization makes the new type of relations in social dimension, the distant localities are linked by companies functions logic. The local transformations due to globalization extent to the social relations in social and in economic aspects. The positive side of globalization such as distribution of ideas, transfer of know-how, technological development, liberalization of international trade is accompanied by the new logic for worldwide companies, especially in labor force management. The globalization process changes the nature of production, its localization place and the attitude towards the workplaces. The international links in economic relations are intensified. The globalization process is called the “Leviathan” of new age.

The globalization and the technological development have facilitated the organization of production in global scale which is not longer associated with one precious locality. Due to the way the company strategy of production is organized, this new process of restructuring of economy is io global scale this time. Mergers, acquisitions, partnerships, joint-ventures produce the synergetic effect and economic efficiency, that is one important factor to rise the competitiveness. Those new processes create the networking of producers, financial institutions, advertisers and others services, clients and customers.

- Supranational structures

The globalization is linked with two processes: the rise of interdependence of national economies in global scale and the integration process (in economic and in regional sense). The national states are obliged to modify their domestic economic policy. The same is true for global economic processes. If the economic conjuncture is changing in one region, it has an impact in others regions, particularly the impact on employment. The labor market is dependent of world trade increases. The international movement of capital, international outsourcing, subcontracting, appearance of borderless firms and the decreasing of role of national state are the consequences of globalization.

GATT/ WTO, IMF and other supranational structures define the principles which are recognized by all countries. The international organizations have the instruments of collective action in environmental policy, in defining the sanitary norms and social standards. These

³ OECD, [Globalisation and small and medium enterprises \(SMEs\), Vol.1. Synthesis report, Paris, 1997](#)

organizations are recognized as capable for resolving global problems. In conditions when resources which were national and immobile became international and mobile the intervention of supranational structures became indispensable.

5. The groups of countries in economic dimension of human development

The globalized economy superimposes on the national economy and becomes in several points its contrast. The new type of economic relations generates the crisis in traditional rules of governing market. The balance between economic efficiency and social equity due to regulating role of governmental policy is changing in new model in which the position of state is different regarding welfare and social relation. The globalization is moving the concept of nationality due to mobility of labor force (this is a new reality of production factors: the mobility not only of capital but also of labor). For this reason countries can be divided in 4 groups taking the quality of workforce (the human capital) and the level and perspectives of economic development (the human development) as principle of dividing:

- Triade. The most developed regions of the world (USA, European Union, Japan) have a classical model of human capital development conditions. Investment in human capital must bring profit to its owner, i.e., for an individual and for a company. Traditionally this model is working, the motivation to improve own human capital is high and these countries are ranged in first lines of human development scale. At the same time the development of human capital is problematic in this group of countries too. If the new mobility became indifferent to nations and states motivated by strategy of maximization of profit, the significant changes into the firms, the transition of organization and management are logic consequences. The globalization provokes the disappear of several forms of jobs, particularly, the disappear of standard forms of employment in developed countries. Development of services and new technologies, telework and other new systems appear, the intensity of work is changing.

The flexible employment has economic efficiency as an aim, but at the same time it provokes a new attitude towards the employees' safety, health and continual social changes. The work 7 days by week, 24 hours per day, 52 weeks per year is due to the connection to Internet, the necessity to adapt to conditions of days time in different world regions simultaneously are changing the job environment in enterprises and institutions.

According to Dunning theory⁴, the foreign direct investments have some domestic employment effects: a) job displacement effect when domestic production and investment are dislocated abroad, b) export stimulating effect when foreign affiliates dislocated into the country develop their export production, c) home office employment effect when the multinationals increase their domestic activities, especially more sophisticated or managerial activities, d) supporting firm employment effect when multinationals dislocated in host country need the input from host country enterprises such as raw materials, details, semiproducts. Theoretically only the job displacement effect is negative for national economy, but the 3 others named effects have positive impact to national economy. But at the same time it is important to notice that: 1) export stimulating effect, home office employment effect and supporting firm employment effect can be not present at the same time when the production is displaced abroad, 2) usually the quantitative effects to labor market are not the same for displacement of domestic production (usually the number of jobs displaced is remarkable because the main reason for displacement is economizing the labor costs) and for home office employment effects (the managerial group can be displaced to and in the case when the managerial office stay in home country the additional number of managerial posts is minimal).

⁴ Dunning J.H., *Multinational enterprises and the global economy*, Wokingham et al., Addison-Wesley, — 1993

In result of all mentioned processes the main trend is observed: since 80`s unequal development of workforce is progressing. Technical progress and 3rd industrial revolution, development of informatics liquidate massively workplaces for no qualified and less qualified workers. In the same time the need in qualified workers is changing too – the new economy needs the qualified workers with conception and that means that the developed countries have qualified workers but the necessity of them grows up faster as supply (from this the big differences in wages). Under the pressure of wages level in other regions and displacement of production units to these regions, the reaction of developed countries in order to reduce the costs is double: at first, because of necessity to save workplaces, the diminution of wages through introducing of flexible employment; at second, the restructurization of production with new technologies or with liquidation of some production types and sectors provoking massive unemployment.

In addition the developed countries have long date traditions of trade unions. These traditions are changing under the conditions of globalization. The strong global competition in product markets, accelerated mobility of capital increase the segmentation of labor market, technological changes make possible the spatial reorganization of production system. The worldwide standards even in social sphere are appearing, the international institutions are looking to create a global governance. The protection of labor force interests like a national policy becomes secondary. Social movements and role of trade unions under new conditions is declining. For example, in the United Kingdom the weight of workers united in trade unions was 50% till beginning of 80s, during the M.Tacher`s government – 29%, in 1995 – 32%, in 2001 – 29%.⁵

The deregulation in national level has segmented the labor market and after that the labor force itself. The development of individualism is an accompanying phenomena. In addition the privatizations, the flexible employment with part-time job, self-employment, utilization of immigrant labor force etc. develop the dispersion of common interest. Competition of wages and labor costs, diminution of states support and of governmental intervention create individualism of representatives of labor market and of firms too.

All those processes are influencing the level of income and the possibilities of development of human capital.

- New Industrial States. Traditionally those countries are looked as the place where the labor intensive productions are displaced. For this reason the paradox is appearing: in this group of countries the low costs (and that means, the low human capital) of workforce is an advantage in the same time that the firm takes a lot of profit from this human capital. If the country increases the income level (development of human development) it loses its advantage (for example, the countries of Latin America lost their advantage because of level of wages in Bangladesh, China, Indonesia, Pakistan and in result their level of wages dropped down for the reason to be competitive).

We can conclude that the development of human capital in this group of countries is destroyed in such way: at first, the human capital for an individual is a capital in sense of improving of abilities to do something, for be more competitive on the labor market but not to receive highest level of income; at second, the human capital for firm is improvement of capabilities of workforce with the same costs, the high level of profit is possible only with the same level of wages and with possibilities to develop new and new kinds of production in the region with low labor costs, to dislocate new sectors of production from high wages countries. Both tendencies were blocking the human development in this group of countries because of interest to save low level of wages.

- China, India, Brazil, CEE. This group of countries is formed from different

⁵ [Statistics UK 2003, The Official Yearbook of the UK of Great Britain and Northern Ireland, P.135](#)

geographic regions but the main characteristics in sense of human capital are the same: this group of countries owns high qualified but low cost labor force. That means, the possibilities to develop the sophisticated sectors are perspective. These countries have an industrial past, but the wages are low because of informal sector. The large existing agricultural sector insures the existence of spaced social classes. While the overtness of these countries is in beginning stage, this group of countries can conserve the low wages advantages for a certain period.

The market mechanism is developing in this group of countries. The privatization and the corporatization are two processes the both take steps to disengagement of State from decision making and from operating into the firm. Market type relations in both cases of reforms are as an aim the reconfiguration of managerial priorities and workforces. The difference between both processes is market relations. In the case of privatization the market forces are operating within the firm (efficiency, effectiveness and other terms of market competition are operating through the production, logistic, services, labor force and customers relations) This process is linked with transfer of property from state to private owner. In the case of corporatization the management and the workforce have the same aim: the competition of firm in the market relations, involving grater responsibility of management to operate with firm. It is the internal restructuring of firm within the market on commercial basis (it is important, that the firm can be private, public or joint property).

The privatization process as one of crucial elements of liberal policy has the aim to create the "popular capitalism". This fact can facilitate the raise of income for several stats of society, not only the entrepreneurs but the street of small equities holders. In the same time the gains of privatization are sustainable only in case of profitability of privatized enterprise. We must recognize that the income level is influenced by one particular case of privatizations – the privatization of apartments and land (the case observed in Great Britain and in several models of privatizations in countries of Central and Eastern Europe). The same privatizations have the opposite influence to income level: the private management of enterprise is based on the logic of economic rationality, i.e. the logic of profitability. In the conditions of competitiveness race the private enterprise is not managed responding to reasons of strategic sector of national economy or the reasons of social role of enterprise. The necessity to reduce the costs is mostly convertible in reduce of labor costs or in removing job posts. In this case the ex-workers becoming unemployed have the negative influence of privatization on their income level.

The countries of Central and Eastern Europe were for a long time isolated from global development process, for this reason they must catch the other European countries but under the conditions of increased level of worldwide competition. Their enterprises and their state institutions are exposed to the world trade and they must compete with multinationals with incomparable level of international experience. They must develop their production according to the world demand. The impact of globalization for this group of countries is both: the development of market relations, the knowledge of management and marketing, the distribution of know-how are the positive side; the negative is the unequal competition of small or medium national enterprises, new entrants in international scale, with multinationals, experienced long time in world scale, the development of labor market under the global competition reasons (structural reforms, locations of productions of big companies and their re-location to others regions with cheaper labor force). The privatization process facilitates the entrance of international capital in national economy.

The growth of unemployment in Europe is provoked by the consequent realization of economic policy required by requirements of Maastrich criterias. The countries engaged in process of instauration of monetary union have the obligations to diminish the state budget deficit and the inflation rate and, as we have showed previously, the preference to inflation's

regulation is direct factor to raise unemployment.

In sense of human capital and human development this group of countries has a lot of perspectives to develop high qualified and educated labor force which will be performant on global scale (the specialists from India or CEE are known in this sense), but the masse of workforce is temporary interesting for multinationals as lower cost labor force not far away from home countries (Triade) which can lost its advantage with rise of living standards and income level.

- Rest of the world. The human development of this group of countries (the most part of world) can be characterized as the most dependent on interests of multinationals. Historically the ancient colonies have had the deviation of economic development predicted by metropolis. In contemporary situation the multinationals defined the economic structure of countries in which they are dislocated. From this demand of specified kinds of workforce is depending. That means that the direction how to develop the human capital of an individual is not so much an individual decision. For this reason the level of human development stays low if in concerned region the multinationals invest especially in extracting industries or national economies are living from agricultural production.

Conclusion

The most of theories are observing the processes only from one point of view. For example, the globalization and the multinationals are viewed as possibilities and prerequisites to invest abroad, looking to find the better conditions for production and labor costs economy (that will be a microeconomic point of view). The same process can be considered as a process of international capital movement with an impact on national economy and to national labor market in both cases: home country and host country (that will be a macroeconomic point of view). The global competition and the interdependence of relations can be viewed on global scale as supranational process with their own labor governance (that will be a point of view of international economic relations). At the same time the labor market is supporting all these processes together and the impact of scope of mentioned elements is multiplicative.

The regionalization is one relatively new form through which the multinationals can organize their production on the region-home base. The effects of regionalization are analyzed by ILO model, the capital and foreign investments are concentrated in countries with high level of technologies to profit from technologic advantages and from concentration of technologies in several regions, provoking the synergetic effects.

At the same time the ideas about social equity or some international social standards are blocked by problem of equity of conditions:

- Differences in access to computers and internet according to socio-economic background of a person, to ethnic groups, to age, to educational background are present,
- Geographic differences between urban and rural regions, between small and large cities, between countries are observable,
- Variations in use of human capital by type of company and sectors differs the possibilities.
- All named differences have the impact to individual to improve his human capital, but in the same time have the impact to nations for their human development.

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