Human Capital and the Economy

FEM 4204

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INTRODUCTION

a. Course Information
Department: Resource Management and Consumer Studies
Course Name: Human Capital and the Economy
(Modal Insan dan Ekonomi)
Course Code: FEM 4204
Credit Hours: 3 [3 + 1]

b. About the Author
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Area of Specialization: Consumer and Family Economics with special
focus on Consumer Behaviors and Policy
Credentials: B.Econs (Hons) IIUM, M.Sc (Consumer Sciences)
Alabama, Ph.D (Consumer and Family
Economics) Missouri.
c. Course Objectives
The course is one of the required elective for students taking Minor in Resource Management. This course is to impart knowledge to students on human capital development and investment. At the end of the course, students will be able to
1. Explain the concepts, theories and approaches to human capital from various perspectives
2. Examine roles of various parties in developing and improving the quality of human capital
3. Examine the need and importance of human capital to family, community and the nation.

d. Course Synopsis
The course discusses the concepts, theories and empirical research on human capital investment from various perspectives. In addition, the foundation of a comprehensive human capital development will be discussed. It focuses on both the classical and neo-classical approaches to measuring human capital, including theories on household production, time allocation, altruism and grant economy.

e. Course Content
Generally, the content of the course requires 42 hours lectures (3 hrs x 14 weeks). As such, this module is divided into 8 units which cover the main topics. The following are suggestions on the allocation of time for each topic to assist students in completing the module successfully. Refer to Table 1.
Table 1: Units and suggested lecture's hour

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f. Course Assessment
The assessment of the course consisted of the following:
(i) Course work 60%
   - Assignment 1 10%
   - Assignment 2 20%
   - Midterm Exam 30%
(ii) Final Exam 40%
Total 100%

The course assessment and assignment will be discussed during the face-to-face meeting.
g. Midterm Exam
There will be one midterm exam throughout the course. The exam questions are based on the materials covered in the module. The type of questions asked consisted of both objectives (i.e. multiple choice, true/false etc) and subjectives. Tentatively, the exam will cover Unit 1 to 4. However, the final information about the exam such as type of question, number of questions and coverage will be informed to students through e-mail or tutors in each learning centers when the time come. The carry mark for the midterm exam is 30%.

h. Final Exam
The final exam will comprehensive (i.e. inclusive of ALL topics in the module). However, student should give more focus on topics that are yet tested. Tutors in the learning centers will be informed about these topics or student may send e-mail directly to the lecturer to obtain latest information on this. The final exam questions are in the form of objective questions. (Attention: the type of questions may be changed, so obtain the latest information from your tutors or e-mail me for that matter)

Example of midterm or final exam question are as follows:

**True/False**
Human capital is also known as human wealth (The answer: True)

**Multiple Choice**
Ali is pursuing a 3-year Bachelor degree in Human Development as a full time student from UPM. What is Ali's opportunity cost throughout the duration of his studies?
- a. Tuition fees
- b. Work opportunities and earning
- c. Equipment cost such as books and stationary.
- d. Human related cost such as use of physical and mental energy.
The answer is (b)
I. Main Reference


J. Additional Reference


k. Explanation of the Icons Used in the Module

To help students understand the materials in the module better, many icons are used. The purpose of having these icons is to facilitate student’s familiarity with the structure of the module. Listed below are these icons and their meaning.
| a)          | Introduction | Either the introduction to the unit, topic or subtopic |
| b)          | Objective(s) | The objective(s) of the module, unit or topics         |
| c)          | The Gist     | The gist of the unit or topic                          |
| d)          | The Conclusion | The conclusion derived from the unit or topic learned |
| e)          | Questions in the text | Questions given while a topic is discussed |
| f)          | Self-assessment | Questions prepared by the author to help student assess their understanding of the topic |
| g)          | The answer   | Answer to the self-assessment questions                |
| h)          | Obervation/ opinion | The authors observation or opinion                  |
| i)          | Check the exercise's answer | The answer scheme attached to the questions (Not attached to all questions) |
| j)          | References   | Suggested readings to facilitate further understanding of the topic |
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Objective of the unit: After going through the unit, student will be able to:

1. Understand the concept of human capital and other related concepts
2. Know the history of conception of human capital concept
3. Identify the relationship between human capital development and labor market

The Content:

Topic 1: Definitions
   Subtopic 1.1 Definition of labor
   Subtopic 1.2 Definition of human resource
   Subtopic 1.3 Definition of human capital

Topic 2: The origin of concept of human capital

Topic 3: Human Capital development
   Subtopic 3.1 Definition and concept of development
   Subtopic 3.2 Human development versus human capital development
INTRODUCTION TO THE UNIT

The unit begins with the definitions of various concepts relevant to human capital. Then, student will be exposed to the origin of the concept and explained on the economics of human capital development. The purpose is to help student to understand the following units. In short, this unit contains the following topics:

1. the concept of human capital
2. the origin of human capital concept
3. the relationship between human capital development and labor market

Topic 1: Definitions

Subtopic 1.1 Definitions of labor

In economics, factors of production refer to resources used in the production of goods and services namely, land, capital and labor. Land or natural resources refers to naturally-ocuring goods such as soil and mineral used in the creations of products. The return of land is rent, usually denoted by \( r \). Capital goods refer to the human-made goods or means of production which are used in the production of other goods. These include machinery, tools and buildings. The return of capital may take in the form of interest or dividends.

Labor is a measure of the work done by human beings. In other words, labor is the human effort used in the production which includes technical and...
marketing expertise. It is conventionally contrasted with other types of factors of production namely land and capital. However, there are theories which have created a concept called human capital which refers to the skills of that workers possess and not necessarily their actual work.

Subtopic 1.2: Definitions of Human Resource

Human resource is traditionally called labor, one of the factors of production. But, modern analysis emphasized that human being are not predictable commodity “resources” with definitions totally controlled by contract. Instead, humans are creative and social beings that make contributions beyond “labor” to a society and to civilizations. Thus, the broad term “human capital” has evolved to contain the complexities of this term. In macroeconomics, the term “firm specific human capital” has evolved to represent the original meaning of the term “human resources”

Subtopic 1.3: Definitions of Human Capital

There are various definitions of human capital put forward in the literatures. Specifically, human capital is referred to as:

1. The stock of productive skills and technical knowledge embodied in the labor (Wikipedia, 2007). Early economic theories refer to it simply as labor, one of the three factors of production.

2. The characteristics possessed by an employee that make him/her more productive [Rahmah; 1996]. Such characteristics include individual skills, knowledge, personality, appearance, reputations and credentials.
3. The stock of expertise accumulated by a worker, valued for its income-
earning potential in the future (Begg, Fischer and Dornbusch, 1987).
Therefore, wage differentials reflect differences in the productivity of
different workers.

The introduction of the term human capital is explained and justified by the
unique characteristic of knowledge. That is, unlike physical labor and other
factors of production, knowledge is:

1. Expandable and self generating with use. For example, as doctors get
more experience their knowledge base will increase, as will their
endowment of human capital. Thus, the economic of scarcity is replaced
by the economics of self-generations.

2. Transportable and shareable. That is, knowledge is easily moved and
shared. This “transfer” does not prevent its use by the original holder,
although transfer of knowledge may reduce the scarcity value to its
original possessor.

In summary, human capital is the human wealth of an individual. It is
viewed as one of the factors of production or physical mean of production that
is labor. However, unlike labor, land and capital, human capital is non
transferable in the sense that one cannot simply physically “borrow” other
people’s diligence or creativity. However, human capital (knowledge, skills) can
be shared with others without preventing its use by the original holder. For
example, one may acquire such productive characteristic (for oneself) through
learning. As human capital is closely linked to one’s labor, the quality of one’s
human capital will influence one’s productivity, thus one’s earning.
Activity 1.1:

Explain what is commonly shared in the definition of labor and human capital? How are these two concepts different?

Topic 2: The origins of the concepts

The idea of human capital concept was conceived by A.W. Lewis when he initiated the field of Economic Development through his 1954 writing on “Economic Development with Unlimited Supplies of labor.” The term “human capital was not used due to its negatives undertones until it was first discusses by Arthur Cecil Pigou in 1928 (Wikipedia, 2007). Pigou as reported by wikipedia (2007) stated that,

“There is such thing as investment in human capital as well as investment in material capital. So soon as this is recognized, the distinction between economy in consumption and economy in investment becomes blurred. For, up to a point, consumption is investment in personal productive capacity. This is especially important in connection with children: to reduce unduly expenditure on their consumption may greatly lower their efficiency in after-life. Even for adults, after we have decended a certain distance along the scale of wealth, so that we are beyond
the region of luxuries and "necessary" comforts, a check to personal consumption is also a check to investment"

The use of the term in the modern neoclassical economic literature dates back to Jacob Mincer’s pioneering article “Investment in Human Capital and Personal Income Distribution” in the The Journal of Political Economy” in 1958. The best-known application of the idea of human capital in economies is that of Mincer and Gary Becker of the Chicago school of Economics. Becker’s book’s entitled Human Capital, published in 1964, became the standard reference for many years. In this view, human capital is similar to “physical means of production” such as factories and machines. Thus, like any other factor of production, one can invest in human capital (via education, training, medical treatment etc) and each additional investment yields additional output.

In some way, the idea of human capital is similar to that of Karl Marx’s concept of labor power. According to him, under capitalism, workers had to sell their labor power in order to receive income (i.e. wages and salaries).

Activity 1.2
Assess your own human capital qualities. List your human capital characteristic(s) you consider as your assets that help you boost your productivity. Then, list all your characteristics that you consider liabilities or weaknesses that can dampen your productivity. For both qualities, suggest a method(s) of that can further enhance or improve your current standing.
"Development is a totality, it is an integrated cultural process comprehending values such as the natural environment, social relations, education, production, consumption and wellbeing. Development is endogenous, it can only come from within a society, which defines in total sovereignty, its vision and its strategy, and counts first and foremost on its internal strengths and cooperating with societies that share its problems and aspiration."

Thus, from the definition, development is:

1. Not necessarily referring to material development (e.g. consumption and production)
2. Inclusive of human aspects (e.g. social relations, educations, sovereignty) that leads to human wellbeing
3. Take into account conservation of environment

However, it should be noted that not all development that aims at bringing about changes or advancement can be carried out by individuals or communities such as poverty eradication plan and effort. Thus, sometimes the government has to step in and intervene to ensure continuous development.

Development generally can be viewed from various perspectives. However, for the purpose of this course, only the following are reviewed: economic, social, and human development.

1. Economic development
   
   It occurs when the economy of the nation grows. That is activities in various sectors such as manufacturing, services, commerce and agriculture show positive indication. The indicators of economic
development that are commonly used are Gross National Product (GNP), Gross Domestic Product (GDP) and per capita income. According to Granovsky (1985), economic development is considered as a “process for improving the social and economic conditions of a population group.” Thus, countries are grouped according to their level of “development, based on economic indicators.” Higher indicators values denote better performance and ability to improve the wellbeing of a population.

However, some argued that economic development not only bring positive output but also negative impact. For example, dirty air and water and other forms of environmental pollutions are the undesirable “grass national by-products”

2. Social Development.

It attempts attempt to develop the citizen or community that it normally linked to the provision of public facilities or social infrastructure such as electricity, roads etc. The ultimate objective of social development is to bring about sustained improvement in the well-being of the individual, family, community and society at large. Thus, the indicators of social progress are reduction or eradication of mass poverty, inequality and conditions of underdevelopment. However, social development depended upon the performance of the economy, specifically economic growth.

3. Human Development

Human development perspective view human as both the actor in the development process and the beneficiaries of development. For his role the actor in the development process, (individual or community) involvement is vital for any development goal to be achieved. Thus, certain good qualities are necessary and desired such as from the human itself such as being skillful and driven to move forward and bring about changes in their lives. This is also become the focus of human capital development. That is developing the human capital such that the quality can be improved and that this is done through activities related to human capital investment such as education and training.
At the same time, human should become the focus of any development. In other words, this perspective upholds the concept of human-centered development. That is, the goal of any economic development is not the creation of wealth but the wellbeing of the human. Unfortunately, often time income obscures the primary aim of development because

1. National Income figures do not reveal the composition of income or real beneficiaries

2. Achievements that do not show up or not occur immediately in higher measured income or growth figures such as better nutrition and health services and greater access to knowledge.

Therefore, an alternative measure of development that focus on assessing the quality of life of the population (instead of solely based on the economic indicators) was introduced by the United Nation Development Planning (UNDP).

According to UNDP (1990), human development refers to a “process of enlarging people’s choices” and enhancing their capabilities in leading their lives to lead a long and healthy life, to acquire knowledge and to have access to resources for a decent standard of living. In other words, the term Human Development:

1. Imply that the main concern is the distribution of wealth not with its creations

2. Denotes both the process of widening people’s choices and the level of their achieved well being

3. It helps to distinguish between two sides of human development to avoid human frustration, namely the formation of human capabilities (e.g. improved health, knowledge and skill), and the use people make of their acquired capabilities for work or leisure.

Parallel to this concept, the Human development measurement or indicators consist of the following:

1. Longevity or life expectancy. It is important because long life is valuable in itself and there exist various benefit linked to longer life such as adequate nutrition, good health and so on.
2. Knowledge measured through adult literacy. This aspect reflects on the population access to education necessary for productive life in modern society.

3. Command over resources for decent living

Using these indicators, together with the usual indicators of economic development, all countries in the world are compared and ranked.

**Subtopic 1.3: Human Development versus Human capital Development**

The following is the comparison between the focus of human development and human capital development as reported by UNDP (1990).

<table>
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<th>Human Development</th>
<th>Human Capital/ Resource Development</th>
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<tr>
<td>The core is enhancing human capabilities to function, and the achievement of people (in terms of long life or literacy) are valued as end in themselves</td>
<td>Human being as resource or an input into production activities</td>
</tr>
<tr>
<td>Income is only a means to achieve the above</td>
<td>The development of human resource is seen in terms of their contribution to income generation – as an investment, like any other, in enhancing the productive potentials (generation of income/output)</td>
</tr>
<tr>
<td>If economic return of (say) literacy is zero, it’ll still be carried out</td>
<td>Considered worthwhile if Rate of return is greater than the cost (similar to Human Capital Investment)</td>
</tr>
</tbody>
</table>
However, in the context of Malaysia, both concepts are incorporated especially at the governmental level and the smallest unit of the nation, the family. On the other hand, the focus of the organization is still towards developing their human capital or employees. The focus of each party involved in the human development/human capital development will be examined in the following units.
UNIT 2

THE IMPORTANCE OF DEVELOPING HUMAN CAPITAL

Objective of the unit: After going through the unit, student will be able to:

1. Understand the importance of human capital development from various level of analysis
2. Identify the relationship between human capital development and a nation’s goals
3. Compare and contrast the human capital development status in various countries

The Content:

Topic 1: The importance of developing human capital to a nation
   Subtopic 1.1 Human capital and Economic goal(s)
   Subtopic 1.2 Human capital and Social goal(s)
   Subtopic 1.3 Human capital development in developed and developing countries

Topic 2: The importance of developing human capital to the society

Topic 3: The importance of developing human capital to the organization

Topic 4: The importance of developing human capital to the individual and family
The unit begins with the importance of human capital development to a nation's goal from the aspects of economics, social and politics. To emphasis it's importance, various status of human capital development in the developed and developing countries are compared. Then, the unit also explains the importance of human capital development to different unit of analysis such as society, organization and family. The purpose is to help student to understand what the fuss about human capital development is. In short, this unit contains the following topics:

1. the importance of human capital development to a nation
2. the importance of human capital development to a society
3. the importance of human capital development to an organization
4. the importance of human capital development to a family/individuals

**Topic 1: The Importance of Developing Human Capital to a Nation**

Human need to be developed to produce good quality human capital. Harbinson and Myer (1964) as reported by Rahmah (1996) explained that human capital development is a prerequisite to achieve satisfying political, social, cultural and economic goals not only at the nation's level but also at the community and individual level. Thus, in the following sections, each of the

The importance of developing human capital: **UNIT 2**
aspect affected by the level of human capital development in a country will be discussed in details. However, for the purpose of this module, only the importance of developing human capital to achieve economic and social goal will be discussed.

"Ordinary people are the center of knowledge creation and innovation. Our people are truly our greatest resource and asset. Whether they are in the smallest companies or in the highest levels of government, people are the building block of all we do – and it is imperative that we recognize this fact. Machine can be fixed, systems and policies may be revamped, and organizations can be restructured. However, the success or failure of any endeavour is still largely dependent on the people involved"

[Dato' Seri Abdullah Ahmad Badawi, the Prime Minister of Malaysia]

**Subtopic 1.1 Human capital and economic goals**

The nation economic goals are economic growth and development. One may ponder “why are some countries richer than others?” Well, some may say that it is due to their difference in the ownership and exploitation of their natural resources such as petroleum. But, this raises another question – “why some countries that do not have much of natural resources such as Singapore can become so rich?” The answer is, human capital is actually the true wealth
of the nations. That is, in the long run, it is the quality of the human capital in a particular country that will "make" or "break" the nation.

In other words, human capital is an important input in the nation's economic growth and development. This is because, it is the human capital that mobilizes (i.e. operates, organizes, manipulates and uses) other inputs such as physical and raw material in the production process. Thus, without the human capital or more specifically without good quality human capital, other inputs may not be effectively coalesced or utilised. Hence, some countries (e.g. some OPEC countries) fail to achieve satisfactory economic development despite having sound economic resources because the human capital development programs in such countries were ineffective. On the contrary, some nations with limited physical capital such as Hong Kong and Korea have achieved higher level of national product and economic growth through a well planned development of its human capital.

It is a known fact that the main obstacle to the implementation and progress of developmental projects and dynamic economic development activities are insufficient skilled labor and the low use of technology. This is because such factors affect the nation's productivity and economic competitiveness. This is especially true in the era globalization and rapid technology advancement where knowledge become extremely important.

"The present illiterate are those who cannot read and write, but the future illiterate will most likely be those who cannot learn, unlearn and relearn"  
(Alvin Toffler)

In knowledge environment, you determine your "wealth" by how you use your brain, and how fast you gain, manage and apply knowledge. Specifically, in the k-economy, wealth is measured by the result of knowledge that is inventively applied. The k-economy includes all human economic activities of
previous era/economies and takes one step further. For example, in the k-
economy agriculture, knowledge could be put to work more effectively through
better planting materials, improved horticultural practices or enhanced means
of trading agricultural product. This is consistent with findings from various studies
which indicated that education and training are important factors that help
increase production in agricultural and manufacturing sectors. Currently, due to
the nature of k-economy where knowledge changes all the time and becomes
obsolete very quickly, education and learning is a continual and lifelong process
and that it is very important to our economic competitiveness, survival and
continual development. Consequently, effective human development strategy
must be implemented to sustain economic growth and development.

Activity 2.1:
The conventional measures of economic development are Gross National
Product (GNP), Gross Domestic Product (GDP) and per capital income. You
need to find out and obtain the following:
1. The definitions, measurement and interpretation of each concept?
2. Time series data of each measures beginning 1970s until now
Then discuss what is/are the strength(s) of using such measure to assess
economic development. Provide relevant evidence in each of your
argument.
As explained in unit 1, the ultimate objective of social development is to bring about sustained improvement in the well-being of the individual, family, community and society at large. Thus, the indicators of social progress are reduction or eradication of mass poverty, inequality and conditions of underdevelopment. Each of these concepts is briefly explained as follows:

**Poverty.** Poverty can be measured using both absolute and relative measures, of which each will provide different definitions. The absolute poverty is concerned about individuals’ inability to fulfill human (minimum) basic needs to maintain their physical efficiency. The absolute poverty line take into account items of expenditure (e.g. food, housing etc) which are needed to maintain decent standard of living based on the norms of the society (Jamilah, 1994). The relative poverty, on the other hand, measures welfare or wealth inequality of certain groups in a society through inequality-parity approach. Thus, relative poverty exists in situation of comparative deprivation. Hence, this approach enables us to divide society into poor and wealthy groups by comparing their incomes.

**Income Inequality.** According to Jenkins (1991), economic inequality is “a measure of how much access to and control over economic resources one has over others across the population.” Thus, the objective assessment of economic (as indicated by income) inequality is to analyse how the economic wealth of the nations is shared among its population. The proxy used to measure economic inequality is income because it is one of society’s economic resources and that it measures one’s potential economic power. However, the main concern of such analysis is NOT to determine how income differs but, the inequality of welfare among populations. The measurement that can be used to gauge the income inequality are many such as mean/median income, income range, Theil Index, Lorenz Curve and Gini Coefficient.
Social imbalances can lead to serious problems. Specifically, historical data suggested that the racial riot in May 13, 1969 was partly due to very serious socioeconomic imbalances between races. Snodgrass (1980) reported that the overall inequalities as indicated by the Gini Coefficients (the lower the better) are as follows: Gini 1957-58 was 0.412; Gini 1967-68 was 0.444; Gini 1970 was 0.502. However, data indicated that there is a general improvement in income equality from mid-70s to early 1990s with reversals taking place until the Asian financial crisis in 1997. The Gini ratio shows that income inequality decline in 1997-1999 under the influence of financial crisis, but has risen subsequently.

Balanced development between regions. Regional development refers to the development among various states and territories and also development between rural and urban areas. Generally, in the duration of 8th Malaysia Plan, all states enjoy an increased in average household income. However, based on the Development Composite Index (IKP), the Central region which consist of Melaka, Negri Sembilan, Selangor and the Federal territory of Kuala Lumpur become the most developed region in Malaysia in 2005 [Ninth Malaysia Plan, 2006]. On the contrary, the least developed region consisted of the following: Sabah and the Eastern region of the Peninsula which comprise of Kelantan, Pahang and Terengganu.

At the same various concerted efforts was carried out to narrow the development gap between rural and urban areas. Despite the tremendous reduction in the incidence of poverty (from 14.8% in 1999 to 11.9% in 2005), the poverty rate is still higher compared to that of in the urban areas.

The question is, what are these have anything to do with human capital? The answer is everything. The unifying factor that binds poverty, income inequality and underdevelopment is income -- specifically, inadequate income to sustain living, inequitable income and unbalanced opportunity to earn income. And, More than 60% of incomes are in the form of compensation (Kusnet and DaVanzo; 1980) -- i.e. the cash (salary/wages, bonus and other cash
allowances) or in-kind benefit (e.g., medical benefit) obtained through one's involvement in the market. So, the type and quality of labor that one offer in the market will determine how much one will be compensated. As such, one's human capital influences one's earning.

The difference earning that one's get from the market depends on many aspects that directly or indirectly related to one's human capital. First, different types of ability such as aptitude, physical endurance & effectiveness influenced by one's heritage and childhood environment which lead to different experience will lead to different level of compensation. Obviously, high capability (partly due to training) individuals get high return. Second, compensation also depended upon the types of occupation and technology. Generally, occupation that requires higher mental ability and/or usage of high technology command higher pay because certain skills are required.

Most importantly, the impact of human capital on earning is not unidirectional which without intervention, one may be trapped in a vicious cycle of poverty. Specifically, not only that low income is the result of exchange of low quality human in the labor market, but low income limit one ability to invest in one's human capital (or that of one's dependent especially children). As a result, one's (or his next generation's) opportunity of securing better earning in the future is hampered. Therefore, one of the most effective methods of eradicating poverty is through human capital development - e.g. provision of living and earning skill to the poor such as entrepreneur training and education especially for the children of the poor to eliminate second generation poor.

“Give someone a fish, and he'll eat it in one day, give him a fishing rod (and fishing skill) and he'll be able to fish through out his life”

(Proverb)
Subtopic 1.3 Human capital development in the developed and
developing countries

The common measures of a nation’s wealth are Gross Domestic Product (GDP) and Gross National Product (GNP). The GNP is the total value of goods and services produced by residents of a country together with profits on property they own abroad, while GDP is defined almost the same way except it does not count for profits on property they own abroad. Using such measure, various nations are categorised accordingly. The developed nations which are mostly located in the Northern Hemisphere are categorised as wealthy nations, while those in the Southern Hemisphere are mostly developing or less developed nations. As such the notion of the “North-South” countries was intelligently coined.

But, what exactly determine a country’s wealth? What makes a country poor or rucher than the other? Various factors were put forward to explain what might be important in determining economic development such as (Barber, 2002)

1. Geography and Geographical factors
   Barber (2002) concluded from various researches that countries having temperate climates are more prosperous than those lying in the equator; countries having wealthy neighbors were much wealthier than those whose neighbors were poor. In addition, geographical factors such as the availability of arable land and the presence of a coastline and natural harbors suitable for shipping also contribute positively to economic growth. Interestingly, abundance of natural resources was found to be negatively correlated with economic growth.
2. Government policies

Government policies on the following are rated as important contributor to GDP and economic growth: country’s openness to trade; the quality of governmental institutions. On the other hand, factors that can negatively affecting economic growth are excessive foreign borrowing and disproportionate military expenditure. This is because such activities siphon off capital that is necessary for economic development.

3. Religion

Sociologist emphasised religion in explaining nation’s economic growth. For example, Catholic countries in Europe had much slower economic growth compared to that of Protestant countries.

4. Technological innovation

Even though technological innovation plays an important role in industrialization, but it is also difficult to quantify.

5. Human capital

Human capital development efforts such as through education, nutrition and health have been identified as important factors that contribute to country’s production level and economic growth. No country has achieved sustained economic growth without substantial investment in human capital. This particular factor will be analysed further in this section.

Specific to human capital, there have been heightened attention to the role of human capital (i.e. knowledge in particular) and its relationship to innovation and economic performance in the discussion about economic development and regional competitiveness. Thus, it is important to compare the human capital development effort by the government between the developed and developing countries.
### Table 1:
Countries with different economic wealth and human capital level in 2005

<table>
<thead>
<tr>
<th>A. DEVELOPED NATIONS</th>
<th>THE COUNTRY</th>
<th>GNP Per Capita (USD)</th>
<th>HDI</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. United States of America</td>
<td>41,890</td>
<td>0.951</td>
<td></td>
</tr>
<tr>
<td>2. Canada</td>
<td>33,375</td>
<td>0.961</td>
<td></td>
</tr>
<tr>
<td>3. United Kingdom</td>
<td>33,238</td>
<td>0.946</td>
<td></td>
</tr>
<tr>
<td>4. Japan</td>
<td>31,267</td>
<td>0.953</td>
<td></td>
</tr>
<tr>
<td>5. France</td>
<td>30,600</td>
<td>0.952</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>B. DEVELOPING NATIONS</th>
<th>THE COUNTRY</th>
<th>GNP Per Capita (USD)</th>
<th>HDI</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Malaysia</td>
<td>10,882</td>
<td>0.811</td>
<td></td>
</tr>
<tr>
<td>2. Mexico</td>
<td>10,751</td>
<td>0.829</td>
<td></td>
</tr>
<tr>
<td>3. Thailand</td>
<td>8,677</td>
<td>0.781</td>
<td></td>
</tr>
<tr>
<td>4. China</td>
<td>6,757</td>
<td>0.777</td>
<td></td>
</tr>
<tr>
<td>5. Philippines</td>
<td>5,137</td>
<td>0.771</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>C. LEAST DEVELOPED NATIONS</th>
<th>THE COUNTRY</th>
<th>GNP Per Capita (USD)</th>
<th>HDI</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Niger</td>
<td>781</td>
<td>0.374</td>
<td></td>
</tr>
<tr>
<td>2. Tanzania</td>
<td>744</td>
<td>0.467</td>
<td></td>
</tr>
<tr>
<td>3. Congo</td>
<td>714</td>
<td>0.411</td>
<td></td>
</tr>
<tr>
<td>4. Burundi</td>
<td>699</td>
<td>0.413</td>
<td></td>
</tr>
<tr>
<td>5. Malawi</td>
<td>667</td>
<td>0.437</td>
<td></td>
</tr>
</tbody>
</table>

Source: [http://hdr.undp.org](http://hdr.undp.org)

The importance of developing human capital: UNIT 2
The human capital development efforts by various countries can be examined through the analysis of Human Development Index (HDI). Table 1 shows the ranking of HDI and GNP for various countries. Generally, it can be concluded that countries with high GNP (i.e., wealthy) reported a high HDI. HDI is closely linked to GNP because countries can achieve rapid growth by inducing the poor to invest in the assets they control, including their human capital. Raising rates of return to human capital and other assets leads to increased work effort, higher saving and higher investment while generating higher productivity and lower inequality in the future. This lower inequality itself fosters further growth, providing the incentive for yet more saving and investment by the poor. This virtuous cycle is one of important explanation for the decades of equitable growth achieved by many Asian countries. However, despite acknowledging the benefit of education, some countries lack on human capital investment due to lack of money. Thus, the virtuous cycle of growth and human capital investment is not achieved.

Activity 2.2:
1. Explain why human capital development is important to a Nation’s economic development and prosperity?
2. Is the relationship between human capital development and economic development clear cut? Explain and support your argument with literatures/journals that discuss such matter.
According to Abdul Rahman (2007), community refers to "a group of people in certain areas attached to the group by shared characteristics, values and norms, similar identities and shared aspirations, such as rural community and squatters community in the urban areas. A community has its own dynamics resulting from the existence of sociocultural, religious and economic institution that ensure the cohesiveness of the community. As such, family and relatives becomes the basic institution that becomes the core of community expansion in terms of population size.

The existence of community makes the discussion on community development becomes relevant. This is because, Community development as a planned "reformation" can be used as a strategy to get away from the economic slowdown and as an effective way of reducing welfare inequality within the country.

The following are definitions of community development put forward by the United Nation and scholars in community development,

"A process by which community effort is combined with that of government agencies to improve the community’s economic, social and cultural conditions so as to integrate them into the mainstream and to enable them to contribute fully to the national development" (United Nations, 1960)

"An effort to provide opportunity for the community to empower themselves so as to change their living conditions through the development of skills, experience, confidence, knowledge and cooperative spirit (among themselves or with relevant agencies offering assistance)" (Asnarulkhadi, 2003)
In both definitions, the community is viewed as the target of the development – a top down approach of community development that makes the “targeted” community to become the receiving or passive participants. In other words, according to Abdul Rahman (2007), the (marginalised or less developed) community is developed by providing various socioeconomic projects that could help the community to advance and improve their level of living.

However, according to Abdul Rahman (2007), community development can also means efforts to develop the community’s living or to strengthen the life of the community. This is done by by focusing on the community’s social capital to make it becomes dynamic. As such, the community itself becomes the “participant” of the community development effort. As the community participated in the decision that affects them, the community development becomes more sustainable because, they have a vested interest in the success of the change itself.

Regardless of the perspective, the human capital within the community is still their main focus in ensuring the community development is achieved. This is because, what is important in the process are

- The participation and involvement in the process of bringing about progressive changes (i.e. from being backward, marginalized to a better living conditions), which requires proper attitudes
- Changing the community’s common practices that hinder development e.g. superstitions, through education
- Enabling them to be in control of their lives and environment, so that they are able fulfill/settle their own needs/problems
- Cultivating community initiatives through the provision of advisory and consultancy, financial allocation and training by the government, especially in the initial stage.

As such, it requires a proper development of the human capital so as to ensure that the community development effort will be successful.
In the closing years of the twentieth century, management has come to
accept that people, not cash, buildings or equipment, are the critical
differentiators of a business enterprise. This is especially true in the new millenium
when the world moves towards knowledge economy. In such economy, human
capital which consists of the knowledge, ability and skills, attitudes, behaviors
and energies of workers becomes the profit lever and chief engine of prosperity
for most organization. As such, the key to sustaining a profitable company or a
healthy company is the productivity of the workforce, the firm's human capital.
In addition, even the best of today's management programs such as total
quality management, self-directed teams ultimately will fail without the full and
honest participation of the individuals involved.

Therefore, human capital or human resource development becomes vital
to a firm's survival. Some of the advantages of developing human capital in an
organization are:

1. Improved business result measurable through increase profit or financial
   performance
2. Gaining competitive advantage
3. Increase productivity
4. Prevent obsolescence of skill at all level
5. Preparation for higher level tasks

However, the decision of whether an organization will invest in human capital
development such as through training depends on the cost of conducting such
effort and the benefit that they expect to gain. This will be discussed in Unit 5.
A family refers to a group of two or more persons related by blood, marriage or adoption (Fitzsimmons, 1973). The family is a unit in the larger economies of the community and nation, interacting with them, influencing them and being influenced by them. In other words, despite being the smallest unit in the social institutions, family collectively can determine if a community or a nation economic, social and political goal will be successfully achieved.

The general functions of the family are social, physical, biological and emotional as well as economics. Human capital development process starts from home as early as during conception. For example, expectant mothers who take proper nutrition and care will (generally) produce healthy babies for the nation. Consequently, it helps reduce health care cost in the future. In short, what is happening within a family in the terms human capital development general will have effect on the society and the nation. Unit 5 discusses human capital investment in the family.

However, generally, the benefit of developing oneself and one's family members can be analysed from the economic and non-economic benefit, such as,

1. Can increase individual/household income.
   The return of investing in oneself is ability to obtain higher earnings. Consequently, human capital development leads to higher individual/family income which is influential to their wellbeing in general.

2. As a strategy to eradicate poverty
   Improving human capabilities through education and training is proven to be an effective strategy and a sustainable way to eradicate poverty.
because it involves active participation and empowerment\(^1\) of the targeted individuals.

3. Upward mobility.

Upward mobility refers to the concept whereby an individual or a family moves from a lower to a higher rank in the social class within a society. A son of a farmer (lower social class) generally ranked as middle class group when s/he starts working as a young executive in upon graduating with a bachelor degree.

4. Producing “the right” (attitude, skills, personality etc) individuals/members which may provide advantage to the individuals in the labor market. For example, it is through family socialization that children develop the “right” human capital characteristics such as positive attitude, resilience, diligence, self-reliant responsible and have good social skills among its members. In addition, the right attitude development may enhance filial piety of the members that it may be proven useful when parents become old.

\(^1\) Empowerment refers to increasing political, economic and social strength of individuals and group that have been marginalized, exploited, discriminated or excluded from the main power structure in a society (including the marketplace and civil society in a consumer culture) (McGregor, 2005). As a process, empowerment refers to the process of which individuals, households or communities “equipping themselves with the knowledge, skills and resources they need in order to change and improve the quality of their own lives and their community” (Quez, 2006).
"A happy family creates a happy people. A country of happy is blessed with higher productivity ..."

(YAB Dato’ Seri Abdullah bin Haji Agmad Badawi)

"The best way to improve society is to improve its families. By contrast, the quickest way to destroy society is to weaken its families..."

[Prof. Dr Richard G. Wilkins, the World Family Policy Center]

In conclusion, human capital development is very crucial in determining the survival of a nation is it in the context of economics, social, political and so on. Therefore, it is observed that observed that countries with high emphasis on human capital development enjoy higher economic growth than those which are not. In addition, as a nations consists of various layers or institution such as community, commercial organizations and families as its smallest unit, the importance of developing human capital is transcendent across such layers. Each layers benefit from a proper development of human capital in their own way.
UNIT 3
HUMAN CAPITAL DEVELOPMENT IN MALAYSIA

Objective of the unit: After going through the unit, student will be able to:
1. Understand the component of human capital
2. Analyse the human capital development planning and development in Malaysia
3. Assess the current state of human capital development in Malaysia

The Content:

Topic 1 : Forms of human capital investment
Topic 2 : Human capital planning and development
   Subtopic 2.1 The framework and component
   Subtopic 2.2 Review of government policies and programs on human capital development
   Subtopic 2.3 The government allocation and spending on human capital development
Topic 3 : Measures of human capital development
Topic 4 : The Current State of Human Capital development and Investment in Malaysia
The unit begins with the definitions of various concepts relevant to human capital development, its history and explanation on the economics of human capital development. The purpose is to help students understand the following units. This unit contains the following topics:

1. The concept of human capital development
2. The history of conception of human capital concept
3. The relationship between human capital development and labor market

Topic 1: Forms of human capital investment

So far we understand that it is important for a nation, society, firms and households to develop their human capital. However, what aspect of human capital should be developed to achieve the outlined goals? In other words, what aspects of human capital that we should invest in? According to Becker (1991), human capital investment can take in various forms, some of which goes beyond the labor market implications. Please note that, such investment may be done either within a family, in a workplace or both. Specifically, human capital investment may take in the form of

1. Formal schooling
   Additional education usually means additional study for a degree or for a school certification (e.g., obtaining SPM or STPM). However, there are many ways to augment one’s formal schooling and purpose for which formal
schooling is relevant. Thus, besides activities related to added schooling to complete requirement, activities such as a two-week computer class, photography or motivational course are relevant.

2. On the job training and experience
The training and experience can exist in both maket job and household activities (i.e. household production). In this case, one takes time out of one’s job or from household activities in order to learn how to do it better.

3. Health
Investing in one’s health is done by spending time and money in maintaining and augmenting one’s physical and mental health. Therefore, aerobic classes, jogging, physician visits, annual dental check ups and good nutritions are all means to invest in our health. The results are fewer days of sickness per year, longer life expectancy and higher productivity on the job and household activities.

4. Migration
When one is migrating from one city, state or country to another in search of a better job or different lifestyle, s/he is considered as investing in oneself. The issue here is that one forsakes the opportunities in one locations in order to exploit those in another.

5. Fertility and marriage
One may invest in human capital by having children and raising them in certain ways which may provide the parents with economic security in old age. Also, one may decide to marry or giving up the advantages of remaining single for future benefit of being married.

The most obvious types of human capital investments are the first three - i.e. formal education, experience and health. However, migration, fertility and marriage are more subtle methods of human capital investment that are more difficult to quantify. Even that, health is difficult to quantify. Thus, when human
capital is discussed, it normally focuses on education and training and their returns.

**Topic 2: Human capital Planning and development**

Human capital development is a process of improving human capital quality which is done by investing in the human itself. In the part of the government, it serves to provide the enabling environment (e.g. through provision of assistance, subsidies, infrastructure and relevant policies) for such activities to take place. In addition, human capital planning and development requires effective and through planning and implementation. It does not only funneling every effort in improving the human capital, but it involves whollistic planning that involve every aspect related to the human itself at the very beginning such as family planning.

**Subtopic 1.1: The Framework and component**

According to Rahmah (1996), The framework of human capital planning and development in Malaysia consisted of the following: (Figure 1)

1. Population
2. Labor force
3. Employment
4. Education

Each of these elements will be discussed in the following section.
Figure 3.1: Human Capital Development and Planning Framework
(Source: Mohd Aliack (1987) as reported by Rahmah (1996)
Population. Figure 3.1 shows the human capital planning and development begin at the general population level. The planning and development at the general population level considers two aspects: the demography and social. The demographic aspect concerns about the pool of potential human capital of the nations. Thus, this aspect concerns about the nation’s birth rate, mortality rate and family planning. The “70 million population” policy was an example of government effort to expand the nation’s size of our domestic market and consequently supply of human capital. (Refer to Table 11-1 in the Ninth Malaysia Plan).

The social aspect serves as the subsequent step in which it focuses on “taking care” of the available supply such as their health, nutrition, poverty and urban development. This is done, for example, through the provision of health care facilities so that it becomes more easily accessible to the citizen.

Labor. The population planning and development is influential or related to both labor and education planning and development. The aspect of labor consisted of both employment and labor force. The labor force aspects concerns about the preparation before entering the labor force, the allocation of resources to improve the quality of the labor and the efficient use of the labor. The labor force increased from 9.6 million in year 2000, to 11.3 million in 2005 (The Ninth Malaysia Plan, 2006).

<table>
<thead>
<tr>
<th>Table 3.1:</th>
<th>Labor Market Index</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>('000)</td>
</tr>
<tr>
<td></td>
<td>2006</td>
</tr>
<tr>
<td>Labor force</td>
<td>11,544.5</td>
</tr>
<tr>
<td>Employment</td>
<td>11,159.1</td>
</tr>
<tr>
<td>Unemployment</td>
<td>385.5</td>
</tr>
</tbody>
</table>

The quality of the labor force has increased—the percentage of labor force with tertiary education increased from 13.9% in 2000 to about 20% in 2005. The employment must be effectively planned in such that the labor force can be easily absorbed to avoid excessive unemployment rate among the populations. The Malaysian economy reported full employment with unemployment rate in 2005 of 3.5% (The Ninth Malaysia Plan, 2006). (Refer to Table 11-2 and 11-3 in the Ninth Malaysia Plan).

**Education.** The educational planning and development consisted of both economic and non-economic aspect of educational. The economic aspects of education may be carried out formally or informally of which both may bring positive result to one’s economic situation such as ability to command higher income. The non-economic aspects concern about the development the emotional aspect of human such as attitudes and temperament. Nonetheless, both are important in moulding an individual and consequently influencing the quality of human capital offered in the market. (Refer to Table 11-4 and 11-6 in the Ninth Malaysia Plan)

The goals of integratively developing these four aspects are to increase productivity, income per capita and income distribution—i.e. economic and social aspects. However, the effect of developing the human capital trickles down to other aspect such as the political aspects as well.

In short, the processes of improving human capital begin at the early stage of child development. That is, through children’s nutrition intake and health. Then, the process continue when the children obtain formal and informal education. Upon finishing school, the children receive training to improve their human capital.
Aktiviti 1.1
Refer to any economics book and find the following:
1. The definition of labor force, employment and unemployment
2. The formula and method of calculating the following:
   a. Labor force participation rate
   b. Employment and unemployment rate

Subtopik 2.1 Review of government policies and programs on human capital

The New Economic Policy. The effort of developing human capital in Malaysia begins since its independence in 1957. The revision of the education system and the educational philosophy provide good evidence for such effort. In fact, human capital is emphasized in economic development process in Malaysia. Thus, human capital has been integrated in its development plan beginning with the first Outline Perspective Plan implemented through the New Economic Policy [NEP] spanning within the period of 20 years. Two primary aims of NEP were:
1. To reduce and eventually eradicate poverty by rising income level and increasing employment opportunities among all Malaysian irrespective of race
2. To restructure the Malaysian society to correct economic imbalances
With introduction of NEP, education and training were accorded a higher level of priority. Free schooling is provided at primary and secondary level. During the
early stages of NEP, vocational education and on-the-job training were introduced. Schemes for the poor and low income pupils were introduced in the Third Malaysia Plan to coincide with education expansion plans. Students from poor and low income families were provided with textbooks on loan and placed health and nutritional programs in schools. The average year of schooling for Malaysian increased from 3.7 years in 1970 to 6.0 years in 1990 [UNDP, 2005]

In short, during NEP,

■ Education and training were used as a strategy to achieve the goals of the nation’s development policy and New Economic Policy (which were introduced following the racial riots in 1969)
■ Lack of education leads to lack of one’s ability to improve one’s quality of life and economic status
■ Lack of education is an important indicator of and factor leading to poverty

The National Economic Policy (NEP) which was implemented between 1971 and 1990 indicated that there has been substantial gain in human resource development. The improved access to education since independence is reflected in the educational attainment of the labor force. The percentage with no formal education has dropped from 41% in 1970 to 6.1% in 2000, while the percentage with secondary or tertiary education has increased from 8.6% to 67.7% [Yahaya, Tey and Yeoh, 2003]. However, human capital imbalances between groups still remain.

The National Development Policy. The National Development Policy (NDP) adopted for the following ten years (1991 to 2000), maintained basic strategies of the NEP but introduced several significant shifts in specific policies to eradicate hard core poverty. The NDP emphasize human resource development as a primary instrument for achieving the objectives of growth and distribution. Thus, the focus on human capital development in Malaysia is especially evidenced in 1990s. Consequently, Malaysia’s rapid economic growth in the 1990s is reported to be heavily dependent on the nation’s human capital development especially in its strategic planning. The emphasis on human capital development during this period is as a result of our leader’s belief that for most countries, human resource development and establishing quality
human capital is an important factor in determining the success of any nation, including Malaysia. Through the Vision 2020, Malaysia declares that “our people are our ultimate resources.” Since then, Malaysia put an utmost importance in developing such an important resource, the human capital. In short, education and training especially play a vital role in achieving our nation’s developmental objectives.

In the Seventh Malaysia Plan (1995 - 1999), Malaysia achieved sustained economic growth through:

- Increase productivity – from increased investment in Human resource development and new technology
- Efficiency in use of labor (as indicated by unemployment rate)
- Strengthening the human resource base. Consequently, the supply of highly skilled and trained manpower increased due to expansion in education and training institutions

**The Nation Vision Policy.** The Third Outline Perspective Plan (OPP3) spans between the period of 2001 and 2010. The Nation Vision Policy (NVP) emphasis is to build resilient and competitive nation as well as an equitable society that would assure continued unity and political stability. The key strategies adopted include developing knowledge-based economy and human resource development, and accelerating the shift in key economic sectors towards more efficient production process and high value-added activities. However, national unity remains the overriding goals of development. Thus, few of the National Vision Policy (NVP) dimension focus on the need to transform the nations into a knowledge-based society (Yahaya, Tey and Yeoh, 2003). Consequently, a more rigorous effort in developing the nation’s human capital has been planned and implemented, so that our nation remain competitive globally as the world are moving towards knowledge economy (k-economy). Vision 2020 articulates Malaysia’s aspiration to become a fully developed nation in its own mould by the year 2020.

In the period of Eight Malaysia Plan (2000-2005), the economy moves towards higher capital-intensity. Thus, it is vital for the nation to create a critical mass of trained, skilled and knowledge manpower with the right motivation and attitude, so that the use and development of new technologies and materials
can be optimised. The objective of such concerted effort is important to sustain economic growth and resilience of the economy (i.e. productivity-driven growth) and to increase Malaysia’s competitiveness globally.

Currently, government efforts in developing human capital in Malaysia are further intensified and embedded in its development plan as our nation moves towards k-economy. However, the government not only focuses on developing human intelligence and skills only, but opted for a more comprehensive human resource development aspects that covers the development of human “soft infrastructure” such positive attitudes and mindset. Thus, the concept of “first class mentality” becomes made famous recently. This is because, at base, physical development is very important for a developed nation. However, the first class infrastructure should not be ruined (or that the current growth should not be dampen) by the prevalence of third class mentality among the human resources and citizen.

The Ninth Malaysia Plan 2006-2010. The Malaysian economy is strengthened by increasing the nation competitiveness and exploring new source of growth. The competitiveness of the nation is very much depended upon the availability of human capital that can be considered as world class – i.e. highly knowledgeable, skilled, competent and creative with positive work ethics and spiritual values. Thus, capacity building becomes the main focus of the development Plan (Ninth Malaysia Plan, 2006). The following is the fundamentals of the Human capital development Policies in Malaysia.

1. To implement comprehensive improvement of the educational and training delivery system
2. To empower the national schools to become schools of choice among Malaysian so that national unity can be achieved
3. To implement ways to narrow the performance gap between rural and urban schools
4. To develop class universities and ensure education and training at the tertiary level are meeting the employers’ need.
5. To provide more opportunities and access to quality education, training and lifelong learning.

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Human capital Development in Malaysia: UNIT 3
6. To strengthen national unity and develop society with progressive perspectives, exemplary values system and culture that give priority to high performance and appreciate traditions and heritage.
7. To widen and improve discussion and negotiation between the government, private sectors, parents and the society in the development of human capital

Students are advised to review relevant part in the Ninth Malaysia Plan to obtain the detail explanation of human capital development planning and implementation (i.e. beyond education and training) for that period of time.

The Millennium Development Goal (MDG). The MDG is a product of the United nations Millenium Summit held in New York in September 2000, a continuation of the international conference in the 1990s that focus towards achieving universal human well-being. Thus, specific emphasis was given on aspects such as poverty eradication and sustainable human development. The MDG Goals are as follows:

1. To eradicate poverty and hunger
2. To achieve universal primary education
3. To promote gender equality and empower women
4. To reduce child mortality
5. To improve maternal health
6. To combat HIV/AIDS, malaria and other disease
7. To ensure environmental sustainability
8. To develop a global partnership for development.

The MDG commit developing countries to taking action to reduce poverty and improve human and environment outcomes. However, it also call upon developed countries to meet their commitment to the developing world such by increasing development assistance, enhance debt relief measures, expand market access and supporting technology transfer and capacity building.
Malaysia’s Human Capital Vision

Malaysia has a vision to become a developed nation by 2020. Thus, the next 14 year phase, Malaysia’s developmental initiatives will be guided by its National Mission. Among its key thrusts are the following: to raise the capacity for knowledge and innovations and to nurture the “first class mentality.”

During the Ninth Malaysia Plan period (2006-2010), investment in human capital will be given high emphasis so as to sustain economic resilience and growth, drive a knowledge-based economy, and foster a community with an exemplary value system. Policies and programs will prioritize the improvement of the education system and ensure a holistic human capital development, encompassing knowledge and skills, a progressive attitude, and strong moral and ethical values.

The implementation of lifelong learning programmes will be accelerated to encourage skills upgrading among all segments of society, and education and training delivery systems will be expanded, particularly in the vocational and technical fields. Emphasis will also be given to the development of entrepreneurial skills at all levels of education, and training will be provided to facilitate the creation of an entrepreneurial society. Further, with the awareness that human resources in science and technology are essential for scientific discovery and innovation, efforts will be intensified to increase human capital investment.

The technology capability and capacity of SMEs will be strengthened to propel them up the value chain of the manufacturing, agriculture, and service sectors. Measures will be undertaken to encourage collaborative ventures among MNCs, GLCs, and SMEs to facilitate technology transfer and skills development as well as marketing.

With the inception of the Ninth Malaysia Plan (2006-10), the Multimedia Super Corridor (MSC) Malaysia will go into its second phase. The MSC is a designated zone, designed to help Malaysia further advance into the information and knowledge age. Physically, it includes an area that stretches from the Petronas Twin Towers in Kuala Lumpur City Center to the Kuala Lumpur International Airport, and it also includes the new administrative capital, Putrajaya, the intelligent city, Cyberjaya, and Technology Park Malaysia, which serves as a model for the development of the MSC. MSC Malaysia will promote local-foreign cooperation in information and communications research and development, and encourage the usage of domestic IT products and services. Under the second phase, new cybercenters will also be developed in Perak, Melaka, Johor and Sarawak.

Source: UNDP booklet “Malaysia International Trade, Growth, Poverty Reduction and Human Development, p.89”
Subtopic 2.2 Government allocation and spending on human capital development

In previous section, various activities were categorised as human capital investment such as education and training and health. Specific to education and training, the human capital development by the government started from preschool until tertiary level. The human capital efforts are implemented by the Ministry of Education (KPM), Ministry of Higher Education (KPT), Ministry of Human Resource (KSM), Ministry of Entrepreneurial and Cooperative Development (MECD) and Ministry of Youth and Sports (KBS). The KPM is responsible in ensuring more opportunities for preschool, primary and secondary schools besides quality education for teachers. The KPT is responsible in widening the opportunity for quality tertiary education. The MECD, KSM and KBS are responsible for training programs to increase the labor force’s skills. As for health, the Ministry of Health is responsible in providing and ensuring quality care for the public.

However, like any other type of investment, human capital investments incur cost. This section provides the general overview of government spending and allocation for the development of the nation’s human capital. In line with the government focus on human capital development, a total of RM45.1 billion is allocated for education and training for the Ninth Malaysia Plan (i.e. 2006-2010), a slight increase from RM42.4 billion during the Eight Malaysia Plan (i.e. 2000-2005) (RMK9, 2006). Please refer to table 11-8 in the Ninth Malaysia Plan Report for detail allocation of the budget.

Table 3 2. shows the annual government spending on education and training and health from 1970s to year 2007. About RM 3,577 million of the education and training in budget 2007 were allocated for improving the infrastructure of the available public universities and developing two new
universities namely Universiti Malaysia Kelantan and Universiti Darul Iman. The primary and secondary education were allocated RM1,441 million for various projects including the development of 102 new schools, 14 boarding schools, 3 sports schools, 2 technical and vocational schools and one matriculation college. In addition, the government allocated about RM920 million for industrial training programs that emphasize on increasing skills of youth and school leavers.

**Table 3.2:**

**Government spending on human capital development activities**

<table>
<thead>
<tr>
<th>Year</th>
<th>Education and Training (RM million)</th>
<th>Health (RM million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>477</td>
<td>155</td>
</tr>
<tr>
<td>1975</td>
<td>1,158</td>
<td>361</td>
</tr>
<tr>
<td>1980</td>
<td>2,283</td>
<td>697</td>
</tr>
<tr>
<td>1985</td>
<td>3,473</td>
<td>1,007</td>
</tr>
<tr>
<td>1990</td>
<td>4,962</td>
<td>1,316</td>
</tr>
<tr>
<td>1995</td>
<td>8,559</td>
<td>2,384</td>
</tr>
<tr>
<td>2004</td>
<td>4,316</td>
<td>2,352</td>
</tr>
<tr>
<td>2005</td>
<td>3,736</td>
<td>1,220</td>
</tr>
<tr>
<td>2006</td>
<td>5,349</td>
<td>1,298</td>
</tr>
<tr>
<td>2007</td>
<td>7,291</td>
<td>1,496</td>
</tr>
<tr>
<td>2008 [estimate]</td>
<td>7358</td>
<td>1,949</td>
</tr>
</tbody>
</table>

Source: Economic Report, Ministry of Finance

In terms of health, the RMKB focused on increasing the quality of life of Malaysians. Thus, emphasis was given in adding more and improving the available health facilities and also widening the scope of health care. As such, a
total of RM9.5 billion was allocated for the development of new hospital such as Hospital Serdang. In the RMK9, such efforts were further strengthened. As such, the government has allocated an amount of RM 10.28 billion for the duration of the Ninth Malaysia Plan. A big chunk of this allocation is meant for the implementation of public health program such as prevention of disease and human resources development in the health care services. Refer to table 20-7 in the Ninth Malaysia Plan Report.

**Topic 2: Measures of human capital development**

According to Rahmah (1996), approaches that are commonly used in the human capital development measures are as follows:

1. **Human capital stock in a country**
   The two most common indicators used for this approaches are:
   a. The number of population who finished their studies at various level
   b. The number of workers who are in the professional job categories such as doctors, scientist and engineers compared to the overall population

2. **The rate of human capital development at a certain period of time**
   This is measured by the net increment of numbers of people who are in the high level occupation such as managers.

However, according to Rahmah (1996), both measures are difficult to administer due to difficulties in obtaining relevant data. Therefore, other measures and indicators of human capital development were utilized. For example,

a. The number of teachers per 10,000 populations
b. The number of scientist and engineers per 1000 populations
c. The number of doctors and dentists per 1000 populations
d. The ratio of students registering for primary and secondary schools to the total number of population aged between 5-14 years old

**Topic 3: The state of Human capital development in Malaysia**

After knowing the government’s vision, the planning, the concerted effort of various ministries and agencies and the allocated budget for human capital development, it is vital to analyse the fruit of such efforts. Thus, this section analyse the current state of human capital development in Malaysia using the measurement that was explained in the previous sections. As such, it is very important for the student to check the following table from the RMK9 report.

1. Table 11-4 (Enrolment in the public education institutions)
2. Table 11-6 (Enrolment in tertiary educational institutions according to the level of studies)
3. Table 11-7 (Product of skilled and semi-skilled human resources based on courses)
4. Table 20-3 (Facilities provided by the Ministry of Health for 2000 and 2005)
5. Table 20-4 (The ratio of health care personnel to the population for 2000 and 2005)
6. Table 20-5 (The number of doctors according to states, 2005)
7. Table 20-6 (Selected indicators for the level of health, 2000 and 2005)
Human capital development activities require investment in aspects such as education and training and health. Realizing the importance of developing human capital to achieve various set goals, Malaysia has put forward her vision related to human capital development. Such vision was followed through with meticulous planning (from population to labor force planning), concerted effort (by various ministries and agencies) and commitment in terms of budget and implementations. Consequently, there has been an improvement in terms of education and skill among the labor force in Malaysia. Similar scenario was also observed in terms of health level among Malaysia as indicated by longer life expectancy and lower infant mortality rate in Malaysia.

UNIT 4
HUMAN CAPITAL INVESTMENT THEORIES

Objective of the unit: After going through the unit, student will be able to:

1. Understand the theories related to human capital development
2. Differentiate theories applicable to households and firms
3. Apply the human capital theories in explaining human capital investment behaviors of firms and households

The Content:

Topic 1: Theories on household Investment Behaviors
  Subtopic 1.1 Human capital Theories
  Subtopic 1.2 Signalling Theories
  Subtopic 1.3 Household production Theories
  Subtopic 1.4 Altruism Theories

Topic 2: Firm Decision for developing human capital
  Subtopic 2.1 General and Specific training
INTRODUCTION TO THE UNIT

Human capital can be improved through investment in education, training, migration, health and so on. In such attempt, individuals will considers benefit and costs of such investment, just like in other type of investment. Rationally, the investment will be carried out if benefit exceeded costs. Human capital investment can be categorised into two: human capital investment by households and by firms. The decision to invest in human capital differs significantly between the two. This will be explain the the unit.

The unit begins by introducing human capital investment theories applicable to households, followed by theories that become the basis of human capital investment in firms. This unit contains the following topics:

1. Theories in household's human capital investment behaviors

2. Human capital investment theories explaining firm's decision for developing their employees human capital

Topic 1: Theories on household investment behaviors

Investment in human capital occurs largely within a household context. However, the human capital decision within a family is not only based on economic consideration. For example, the decision to pursue a bachelor's degree after obtaining a diploma in certain field will depend much on the
expected salary upon completing a bachelor degree compared to that of salary of a diploma holder - i.e. the decision is based on economic consideration. But, in certain instances, such investment in this "grant economy" is based on altruistic motives such out of love and compassion for family members. Theories related to human capital investment are presented in the following sections.

**Subtopic 1.1: Human Capital Theories**

The discussion on human capital investment is tied to understanding the concept of utility and wealth and rate of return. The human capital investment theories deal with individual utility maximization over time. As utility is difficult to measure, therefore, the wealth measured through increase in income or earning is used to measure utility (Rahmah, 1996). As such, individuals will choose activities that give maximum wealth - i.e. net financial returns in the long run. Thus, in this case, it is important to differentiate between current and future consumption values. So, given the choice between current and future consumption, if the utility of current consumption (Uc) is greater than the utility of future consumption (Uf), an individuals will forgo1 the current consumption, vice versa. Assuming that the household prefers to maximize his future consumption, it put aside a fraction of its current income as saving. However, the question is, what form will the saving take? Bonds, stocks, buy a house or investing in oneself/family members?

Human capital theory says that human capital can be added, built and produce return like other types of capital (i.e. financial capital). Consider an

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1 **Note:** Forgone current consumption consisted of direct cost (e.g. cost of schooling); plus opportunity cost and other non monetary cost (emotional cost of leaving the family etc) of investment
individual concerned only with monetary payoff to formal schooling, s/he will only invest in added schooling if payoff of added schooling provides greater payoff of than the alternative investment (e.g., stocks, bonds, saving accounts etc) at the going market interest rate of r.

**Subtopic 1.2: The Theory of Signalling**

The theory assumes that people are born with different innate ability. Some people are good at most things, other people are less smart and on average less productive. But, it is difficult to identify who is smart and who’s not because their physical appearance is not a good way to tell which is which. Specifically, the problems for firms are to tell which applicant will turn out to be the smart ones with high productivity.

This theory says that it could be rational to invest in costly education even if education adds nothing directly to a worker’s marginal product. The theory added that in going on in education, the smart people are sending a signal to employers that they are high-productivity workers of the future. This is because, higher education are screening out the smart high-productivity workers. Thus, firms can pay university graduates more because they can be assured that they are the high-ability workers.
Subtopic 1.3: Household production theory

Household production theory expanded the traditional microeconomic models that only view household as a consumption unit. The productive function of the household was fostered by family economist with the most noted conceptual development by Deacon and Firebaugh (1975). As such, production results from human activities were categorized into either market production or home production. Output from market production has exchange value with transaction characterized by formal money or in-kind exchange. Home production or household production is by and for household members with the output having use value rather than exchange value (Beutler and Owen, 1980). This is consistent with the definition of household production put forward by Reid (1934, p.11 as reported by Beutler and Owen, 1980).

Household production consist of those unpaid activities which are carried on, by and for the members, which activities might be replaced by market goods or paid services if circumstances such as income, market conditions, and personal inclinations permit the service being delegated to someone outside the household group.

Examples of household production are caring for children and other family members, cooking, washing and so on.

Household production theory outlines how household combines goods and time of household members to produce output or "commodities" it ultimately desires or that yield satisfactions. Here, households are seen as both producing units and utility maximizers. Thus, household decision making is not
restricted to the final goods/output\(^2\) market alone but resource allocation or interaction with the factor market also becomes part of the framework.

In the household production theory, unlike the traditional microeconomic theory which considers time allocation into market production and leisure, it delineate three categories of time use namely leisure, household production and market work. Each individual has 24 hours within each day, yet the outcome from the use of that time may differ widely. Therefore, how time is used is of concern because household decision about time allocation influences both the use and development of human resources within the household and in the broader economy and society. In addition, the household decision about time allocation (i.e. time allocation to the development of human resources) determine to a large extent the composition and quality of life for individuals and families. That is why, a mothers who spend less time in the market so that they can home tutor her children may produce academically better-off children than those who decide to work more, thus having less time to monitor their children academics at home.

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**Subtopic 2.1.2: Altruism Theories**

Parental altruism or “love” towards children provides a powerful framework for the analysis of quantity and “quality” of children. Altruism means that the utility of parents depends on the utility of each child. In this model, a person, \( h \), is effectively altruistic towards another member of his family, \( w \), whom may be his child, spouse and so on. “Altruistic” means that \( h \)’s utility function depends positively on the wellbeing of \( w \). Thus, in altruistic model, a parent \( h \) i.e. say Pak

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\(^2\) Refer to the Circular Flow of Income to understand the 2 types of market – i.e. input/factor and output – and the relationship between firms and households in an economy.
Abu) cares not only about its own lifetime consumption of its descendents (w i.e say Aminah binti Abu).

This model can be applied to explain not only to behaviors related to human capital investment of household or family members such as children, but also for private bequest behaviors. As such, parents intentionally or unintentionally make transfers to their descendents in numbers of ways, such as purchases of educations and other human capitals, gifts and bequest of tangible and financial properties.

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**Topic 2: Firms Decision for Developing Human Capital**

Investment in human capital is important, not only before one enters the labor force but also after s/he is employed. In other words, level of education only is not sufficient to ensure that s/he will become a competent employee. Thus, additional training and experience is needed to enhance his/her ability. However, the decision of investing in its employees depends on the benefit that will be enjoyed by the firm from such investments. This is because, unlike education where the cost and the benefit of such investment is borne by the the investors, investment related to the on-the-job training may be done by either the firms or individuals. Thus, it is difficult to separate the investment cost of both parties. However, the theory of investment in on-the-job training is an extension of the investment in education by households.
Subtopic 2.1: General and Specific Training

On-the-job training may prepare employees with general or firm-specific skills. General skills are those that can be transferred to work for another firm, such as training on how to be a mechanic. Thus, the firm offering general or transferable training will try to make the workers pay for such training. This is achieved by offering an age-earning profile that starts off very low, lower than the worker’s marginal product, but is guaranteed to rise steeply over time.

The firm-specific skills such as understanding the Universiti Putra Malaysia’s financial procedure or filing system helps increase a worker’s productivity only if s/he works for that particular firm or organization. As such, the skill is virtually worthless to any other firm. In such case, the firm is willing to pay for the on-the-job training, as it is unlikely to lose the worker. The more general or transfereable the skills, the more the firm will want the worker to pay the cost of training.

UNIT 5

HUMAN CAPITAL INVESTMENT BY FAMILIES AND FIRMS

Objective of the unit: After going through the unit, student will be able to:

1. Understand the human capital activities conducted by families and firms
2. Determine the economic and non economic rational of human capital investment by families and firms.

The Content:

Topic 1: Human capital and Family
   Subtopic 1.1 Formal Schooling
   Subtopic 1.2 Training and experience
   Subtopic 1.3 Health
   Subtopic 1.4 Others human capital investments

Topic 2: Human capital and the firm
   Subtopic 2.1 Human resource development
The unit explains the reason for investing in human capital and types of human capital investment activities conducted by both families and firms. This unit contains the following topics:
1. Human capital and families
2. Human capital and firms

**Topic 1: Human capital and family**

People have been investing in themselves and their children. According to Bryant (1991), investing in oneself and their offspring is one of the most important ways of saving, as explained in Unit 4. In other words, given the amount of money that a family has decided to save, a family may want to save in the form of saving accounts, buy added stocks and bonds, buy a house, pay off debts or invest in family members. Similar to that of other investment, the decision to invest in their human capital or otherwise depends on the consideration of its cost and benefits. Rationally, the investment will be carried out only if the benefit of such investment outweighs the costs.

However, it should be noted that human capital investment by household are not done mainly for influencing their labor market behaviors (such as the numbers of hours worked) as labor market is only one of households' activities. Thus, there are also non-labor-market implications of investing in oneself of one
family member. For example, a parent who ensures that his/her children possess strong spiritual strength, so that such child will be able to pray for him when he passed away. As such, the concept of human capital is central to understanding both economic organization and non economic decision of the household.

Parents have large influence on the education, marital stability and many other dimensions of their children’s live. According to Becker (1993), the term “underclass” describes families in which low education, welfare dependence, early pregnancy and marital instability pass from parents to children. However, surprisingly, although positively related, the relationship between parents and children earning are positively related. But, such relation becomes stronger when the families come from poor families. The clearest reason why such relationships exist is that richer families can afford to send their children for training. Thus, one solution is for the government to lend money to students when their parents are unable or unwilling to finance their training.

According to Becker (1993), families devide their total spending on children between number of children and the amount spent per children. Specifically, the number of children and spending per child tend to be negatively related. This is because an increased number of children raise the effective cost of adding to the spending on each child, because an additional dollar or hour of time spent on each child means a larger addition to the spending. Similarly, an increase in the dollars or time spent on each child raises the cost of having an additional child.

This negative relation at family level between number of children and spending per child implies a close and also usually negative relation at the aggregate level between population growth and investment in human capital. Thus, ethnic or groups with small families generally spend a lot on each child’s education and training, while those with big families spend much less.

In the following sections, human capital investment that is usually tied to families will be discussed in detailed.
A school can be defined as an institution specializing in the production of training, as distinct from a firm that offers training in conjunction with the production of goods and services (Becker, 1993). Some schools, like those for beutician, specialize in one skill. Others like universities offer a large and diverse set.

A major reason of human capital investment through schooling is to augment their income in the future and so to increase their total wealth. Thus, education and training are considered the most important investment in human capital. According to Becker (1993), the earning of more educated people is almost well above average, and that the gains are generally larger in less developed nations. Education raise employee’s Marginal product [MP] in market employment, thus resulting in higher real wages. This explains why highly educated people earn more than less educated one. Figure 5.1 shows the relation of earning to age for individuals with different educational level. For example, an individual with a bachelor degree requires started joining the labor forces later than those with SRP qualification because human capital investment takes time. So, university student incur opportunity cost in terms of forgone earning should they decide to work after obtaining their SRP qualification. However, the benefit of having better qualification is paid off with higher starting salary (shown as steeper slope) for those with bachelor’s degree compared to that of SRP.
When one will stop investing in oneself? Recall the Human capital Theory. After choosing what kind of investment – i.e. whether it would be physical capital (e.g. a new car) or financial capital (e.g. stocks, bonds) or human capital, if formal schooling initially has the higher rate of return, one will maximize his/her wealth by continuing to invest in schooling until the rate of return on schooling has been driven down to the market rate of interest – i.e. the interest rate that equates the cost of the investment with the present value of the stream of future benefits from the investment.
Training, as previously defined refers to taking time out from one's market job or in household activity in order to learn how to do it better. Therefore, training and experience consist of improving and enhancing one skill related to either market or household production activities. Thus, in the context of a family or household, learning to cook from one's mother in-laws upon marriage is considered as training. As such, household production related training may be obtained formally such as attending breathing and birthing classes or joining cooking classes to enhance one's ability in tending one's family. In addition, such training may incur informally such as in the example cited above.

Human capital formation especially that one gained through experience in household activities, takes place in the context of a household. Thus, the type of households or families affects the return of human capital investment. Consequently, household or family types influence the amount and type of human capital formation (Bryant, 1991). For example, a bachelor or single person cannot exploit specialization of function and economics of scale in the household production activities, thus, single do less chores and consequently having less experience in household productions. On the contrary, married couple with many children accumulates more child-specific human capital via experience than unmarried, males and couples with no children.

Besides training, experience is considered as one form of human capital. This helps to explain why once formal education has been completed, a 40 yr old employee with Sijil Pelajaran Malaysia (SPM) qualification earn more than 20 yr old employee with similar qualification. The difference between both employees is their EXPERIENCE. Specifically, either through the on-the-job-training (OJT) or learning by doing, Marginal Products (MP) continues to grow, so real wages (thus earning) continue to rise. So, 20 years experience compared to
6 months experience does make a lot of difference in such cases. Thus, besides education, experience can augment one’s human capital. That’s why earning rise with age to late middle age or beyond and then flatten out or decline to retirement. Refer to figure 5.1.

**Subtopik 1.3: Health**

Household investment in health refers to activities related to spending time and money in maintaining and augmenting one’s and/or one’s family members health. Example for such activities are joining aerobic class, doing a regular dental and health check ups, ensuring good nutrition for oneself and one’s family and socializing one’s children with good eating habit or healthy lifestyle. Similar to that of education and other human capital investment activities, one’s decision to invest in one’s or one’s family health is influence by the benefit and cost of such activities. That is, the investment will continue as long as the Marginal Benefit of investing in one’s health exceeds the cost of doing so.

But, what make health different from other type of human capital investment? The following probably would provide a good explanation.

1. Increase yr of schooling will not increase one’s expected life span, but investing in health will
2. Learning-by-doing will not prevent sickness from reducing the number of days of activities per year, proper nutrition and other preventive health measure will
3. Investing in health reduces the no of absentees due to medical reason per year.

Consequently, investing in one’s health increase one’s productivity and time use. In addition, in certain situation, investing in one’s health help prolonged the
benefit of one's investment in education. For example, given the retirement age is 60 years old, the benefit of investing in one's education is shorter for someone who dies at the age of 41 due to poor health (as a result of poor eating habits) compared to another person who dies at the age of 80 who really takes good care of himself.

Previous studies on one's investment in health indicated that one's current health status is affected by the individual's age, own and spouse's education and past health status. These factors were found to be affecting individual's "demand for health" - i.e., the demand arising from both the future benefit of investing in one's health today as well as the consumption benefits of enjoying being healthy currently. In addition, interesting link between education and human capital investment in health was also found. Specifically, the relationship between human capital investments is positively related to human capital investment in one's health. In other words, better educated individuals are generally more conscious about taking better care of oneself's health wise. At the same time, investment in children's health was positively associated with better intellectual development of the children. In short, healthy children accomplish more in school. Better educated people are healthier.

Subtopik 1.4: Other human capital investments

Other types of human capital investment are done through migration and having children and raising them in certain ways. Migration means moving from one place to another within or beyond one's country's boundary in search of better job or different lifestyle. Here, one foresees the opportunity in one location in order to exploit those in another. As such, moving from rural to urban areas to seek for better employment opportunities and consequently one's ability to improve one's or one's family economic status and quality of life falls
under such categories. In addition, having children and raising them in certain ways to provide economic security in old age is also considered as one type of human capital investment. However, since such investment depended heavily on the children’s sense of responsibility and filial piety (which may be successfully instilled or not during the rearing process), thus, the return from such investment is not certain. As such, intergenerational transfers from children to parents may or may not be reaped by the parents in their later lives.

**Subtopik 1.5: Sex Typing of Human Capital**

Sex typing of human capital investment occurs when individual’s expectation or those of their parents, about their future activities depend upon gender. For example, historically females were expected to spend majority of their life in the household production and leisure activities. As such, the Marginal benefit to labor specific human capital investment by or on behalf of females was lower than those males. Consequently, the amount of such investment made by females or by society and parents on their behalf were reduced. In other words, parents with traditional sex stereotyping would ensure their sons are well educated compared to their daughters. Thus, it may explain why women and children constitute 2/3 of the world illiterates.

Another area of human capital investment’s sex typing is in the household production. Similar expectation remains regarding males and females in the household production activities – i.e. males are expected to be the providers of the family by working in the market. Females, on the other hand, shoulder the housemaking responsibilities. Consequently, it affects how boys and girls receive training related to household chores. In relation to this, studies had been conducted to examine the participation of boys and girls in household chores and analysis on time allocation and division of labor in the household between men and women.
Topic 2: Human capital and firms

Unlike the family whose human capital development efforts started at conception, the human capital development activities performed by firms for individuals started upon him/her joining the organization. And, Human Resource Development (HRD) is one of the functions perform by the Human Resource Management (HRM) which includes the following:

1. Human Resource (HR) Planning, Recruitment and Selection
   These are activities prior to hiring employees. Specifically, HR planning is the process of systematically reviewing HR requirements to ensure the required no of employees with the required skills are available when needed; Recruitment is the process of attracting indiv in sufficient no and encouraging them to apply for jobs with the organization; selection is the process thru which the orgn chooses from a group of applicants, those indiv best suited both for open positions and for the company.

2. Human Resource Development (HRD)
   HRD helps individuals, groups, and the entire organization become more effective. The development process should begin when the individuals join the firm and continue throughout their careers.

3. Compensation and Benefits
   This aspects focus on developing and implementing a good compensation system – i.e. a system that provides employees with adequate and equitable rewards for their contribution in meeting organization goals.
4. Safety and Health/Employee and Labor Relations
   This function ensures that employees are protected from injuries caused by work-related accidents and that they also have freedom from illness and their general physical and mental wellbeing. This is because, employees who work in a safe environment and enjoy good health are more likely to be productive and yield long term benefits to the organization.

5. Employee Labor relations
   It involves in developing effective employee relations.

6. Human Resource Research
   Research is an important key to developing the most productive and satisfied workforce. Human resource research is done either proactively to improve to improve the current condition, or reactively when problem occurs (e.g. excessive absenteeism or grievances, work-related accidents)

For the purpose of this module, only the Human Resource development function of Human Resource Management is of interest as it specifically relates to human capital development in a firm. As such, it will be explained in a more detail manner below.

Subtopic 2.1: Human Resource Development

HRD is a planned, continuous effort by mgt to improve employee competency level and organizational performance through training and development program. While training permit learners to acquire knowledge and skills needed for their present jobs, the human resource development program...
involves learning that looks beyond today and today’s job – i.e. it has more long term focus.

Human resource training and development are very important in an organization because:

1. People, jobs and organization are always changing
   In this day and age, the only thing that is sure is “change.” Organization change through mergers, acquisitions, rapid growth and downsizing; technology especially information technology and ICT change rapidly, thus changing the way people work; human resources also changed as now the workforce is more diverse and consisting of many groups due to globalization. As such, developing HR is crucial to prepare employees to keep pace with the organization as it changes and grow and help them adapt to rapid environmental changes.

2. Continuous improvement in processes is mandatory for the firm to remain competitive
   Training enable organization to improve the productivity of its workforce and at the same time to enhance the quality its output (product and services). In addition, training prevent obsolesces of skills at all level of employees.

3. A need to improve human relations within the firms through HRD as jobs grows increasingly complex and impersonal

Examples of types of Training and Development program that usually adopted by the organization are as follows: Coaching: on-the-job approach in which manager is given an opportunity to teach on a one-to-one basis or that the individual become an understudy to his/her boss; Mentoring: on-the-job approach in which the trainee is given the opportunity to learn on one-to-one basis from more experienced organization member; Internship; university student divide their time bet attending classes and working for an organization; Role Playing: i.e. responding to a specific problem that they may actually encounter in their jobs by doing it e.g handling grievances, interviewing etc.; Job rotation:
i.e. moving employees from one job to another to broaden their experience;

**Computer-Based Training:** using computer for training, in the absence of human facilitators


UNIT 6
HUMAN CAPITAL ISSUES AND CHALLENGES

Objective of the unit: After going through the unit, student will be able to:

1. Understand the relationship between human capital, income and income inequality
2. Examine the impact of globalization on human capital
3. Analyse human capital and gender issues

The Content:

Topic 1 : Human capital and income inequality
  Subtopic 1.1 Inequality measures

Topic 2 : Human capital in a globalized world
  Subtopic 2.1 Brain drain and brain loss
  Subtopic 2.2 Outsourcing of human capital

Topic 3 : Human capital and k-economy
  Subtopic 2.1 Digital divide

Topic 4 : Human capital and gender
INTRODUCTION TO THE UNIT

The unit begins by discussing the relation between human capital and one’s earning and income differences. Then, the discussion focuses on human capital in the globalization era, k-economy and gender issues related to human capital. The purpose is to help students understand the following units. This unit contains the following topics:

1. Human capital and income inequality
2. Human capital in a globalized world
3. Human capital and k-economy
4. Human capital and gender

Topic 1: Human capital and income inequality

Earning is part of an income in the form cash or in-kind obtained through an individual exchange of his/her labor in the labor market. Thus, cash earning comes in the form of wages, salary, bonuses and so on. In-kind fringe benefit such as car, house and medical care services are also part of earning. On the other hand, income is a much wider concept that covers not only earning but also any income or non-labor received by an individuals such as income from rental, dividend and interest. In Malaysia, more than 60 percent of income comes from earning, thus, income distribution is heavily influenced by earning distribution. And, interestingly, earning is very much influenced by human capital qualities of the individuals. Specifically, educational level influence income
distribution. In general, individuals enjoy different levels of income due to their differences in the following:

1. Human ability such as aptitude, physical endurance and effectiveness which is influenced by one's heritage and childhood environment which lead to different experiences. For example, a child from a well-to-do family who has been socialized differently from those in poor families may have obtained different social skills, such as more confidence in meeting people and so on.

2. One's high capability which is partly due to training resulted in getting high return.

3. Types of occupation and technology

4. Responsibility and risk. Specifically, one position in the organization hierarchy which is an indication of different responsibility shouldered by an employee differentiates their income. For example, a supervisor and supervisee enjoy different levels of income due to their different responsibilities. In addition, the level of risk associated with the occupation also influences one's earnings. For example, miners and factory workers have different pay though they are in the same job category.

So, imbalance distribution of educational level among the population had caused income to be unequally distributed. In other words, even though the percentage of the population with secondary and tertiary education had increased, but the percentage of those with primary educational level (only) is also large.

Subtopic 1.1: Inequality Measures

The objective of analysing income inequality is to analyze how the economic wealth of the nation is shared among its population - i.e. economic inequality. Specifically, according to Jenkins (1991), economic inequality refers to "a measure of how much access to and control over economic resources..."
one has over others across the population.” However, the main concern of such analysis is NOT to determine how income differs but, the inequality of welfare among populations. As such, income is normally used as a proxy to measure economic inequality. This is because, income is one of society’s economic resources and that it measures one’s potential economic power.

The following are some of the measures used to gauge income inequality:

1. Calculating the mean or median income
2. Comparing the lowest and highest income (Min vs Max)
3. Calculating the Theil Indexes – within & between groups
4. Lorenz Curve

The Lorenz curve is a convenient means of visualizing the degree of inequality between groups. In this case, percentage of total income received by any percentage of income recipient when incomes are arranged from the smallest to the largest amount and plotted into the graph. See the graph below. If there are 5 categories of income, each income group represent 20% each (quintiles). If there are 10 categories of income, each income group represent 10% each (deciles).

5. Gini Coefficient

It is the ratio of areas between the Lorenz curve and the perfect equality line (45° line), which we may call area \( A \) and the total areas under the 45° line, which we may call area \( B \). In other words, the Gini coefficient \( G \) is obtained as follows: \( G = \frac{A}{A + B} \). The value of Gini Coefficient ranges from 0 to 1. Perfect equality is indicated by \( G = 0 \), which means that everybody receive the same portion of the income. Perfect inequality occur when \( G = 1 \). It means that all income is conquered by (only) few individuals leaving none to others. Thus, the relationship between Gini Coefficient and Lorenz Curve can be concluded as follows:

- If Gini ratio is closer to ZERO, Lorenz Curve is closer to equality line
- If Gini ratio is closer to ONE, Lorenz Curve is apporaching inequality line or that it goes farther away from the equality line.
Graph 6.1: The Lorenz Curve

Activity 6.1:
Find out the following to enhance your understanding and ability to apply the measures of income inequality:

2. Is the Gini Coefficient value different for the peninsula, Sabah and Sarawak?
3. Examine the Gini Coefficient value for other groups that you think important to compare – e.g. between races.
4. For activity 1 through 3 above, provide explanation for their differences (if any). What should be done to reduce such differences, especially in terms of human capital development?
In the 1960s, most developed nations were going through internationalizations process. However, in 1980s, the concept has been replaced with the concept of globalization (Poo and Rahmah, 2003). Globalization refers to a multidimensional phenomenon involving the following aspects: economics, politics, culture ideology, technology and so on. This phenomenon has lead to a more open, liberal and globalized economics and trade, rapid advancement of information technology, electronic communication and computerization. Generally, globalization has made the world become “borderless” – i.e. it diminishes the hindrance of geographical distance for countries to get connected economically, socially and politically.

From the economic perspective globalization is not only linked to economic liberalization of a nation, but also means growth, international trade and international integration for products, technology, labor and capital (Poo and Rahmah, 2003). Thus, globalization has increased interdependencies between nations, capital inflow, direct investment, international migration to other nations, and rapid and comprehensive dispersion and diffusions of information technology. Thus, in the following section, two most relevant aspect of human capital in a globalized market, namely brain drain and outsourcing of human capital will be discussed.
Subtopic 2.1: Brain Drain and brain loss

Brain drain refers to the exodus of human capital, international mobility or flow of brain power (Nunn, 2005). The term ‘brain drain’ has caused a lot of debate in recent years with some people preferring to call it ‘brain exchange’ or ‘brain circulation’. Brain drain was noticed as early as the 1960’s, thus, it is not a recent phenomenon. But, as globalization speeds on, people, goods and services are moving across borders in large numbers. Brain drain is the potential loss of national talent, an issue that has been associated with increased mobility of students and scholars. Thus, brain drain has financial, institutional and societal costs. This is especially important to the developing countries which continue to loose most of their highly skilled labor to the developed nations.

There are both pull and push factors that cause brain drain. First, Pull factors or factors that attract skilled labour into their country. They include:

- High wages/ attractive salary packages.
- Job opportunities
- Relatively good working conditions
- Freedom from political instability or oppression
- Use of selective immigration policies which attract highly skilled workers. Green cards- Germany and U.S.
- Access to research funding and hi-tech facilities, coupled with the potential to collaborate with other researchers (for those in the academics field).
- Quality of education.

Second, the push factors or unfavorable conditions that causes one to want to leave their motherland. They include:

- Lack of life chances.
- Low living standards.
- Political and social instability.
Lack of opportunities to utilise one's skills/ unemployment.

- Natural disasters and environmental/ ecological deterioration. E.g. Tsunami and Hurricane (Rita and Katrina) victims.

Developing countries have continued to get little return from investment in higher education since too many graduates leave or fail to return home at the end of their studies. Bright students from developing countries are drawn to the top universities in the west and tend to stay and work there after completing their studies. It's no wonder that many foreign highly skilled workers were originally students who later changed status, a process helped by generous policies. Thus, it is evident through a dwindling professional sector whereby institutions and organizations are increasingly dependent on experts/ expatriates to fill the human resource gap created by brain drain. This has resulted in persistent under development in developing countries and very slow economic growth as highly educated and skilled people have deserted their countries.

According to the Organization for Economic Cooperation and Development (OECD), there are few reliable statistics on the movement of people around the globe. This is because there is no uniform system of statistics on the no. and characteristics of international migrants. Source countries also don't keep track of emigrant's characteristics. Thus it's difficult to measure brain drain precisely. Nevertheless, the OECD estimates that 1.9million migrants enter the U.S on Humanitarian grounds or to join their families and of this 1/6 of them account for the country's IT work force. The U.S attracts the greatest number of foreign students compared to other OECD countries such as Australia, Switzerland, Austria, and the U.K.

The UN Economic Commission has suggested the following figures:

- Among countries in Asia and the pacific, the biggest source of migrants is Philippines with 730,000 migrants.
- The 2nd largest stock of migrants is China with 400,000.
- India and Korea have seen more than 300,000 migrants into the U.S in the recent past.
- Africa lost 60,000 professionals (Doctors, university lecturers, engineers etc) between 1985 and 1990.
- 21,000 Nigerian doctors are practicing in the U.S while Nigeria's health system suffers from acute shortage medical personnel.

**Migration rates to the United States in 1990, by educational category (percent)**

**Selected Asian and other countries**

![Graph showing migration rates to the United States in 1990 by educational category for selected Asian and other countries.]

Brain drain takes place among professionals and scholars. Those highly skilled in science and technology are leading in the migration. This includes Biomedical and Information Technology, many scientists, engineers, doctors and nurses. Thus, government need to address the pull and push factors that influence emigration. For example, through the creation of Virtual participation—i.e. participation of individuals/citizens in nation building without physical relocation. Virtual participation sees brain drain not as a loss but a potential gain, where highly skilled people are seen as a pool of potentially useful human resources for the country of origin. This leaves the challenge as to how to mobilize these brains.
Investment in education in a developing country may not lead to faster economic growth if a large number of its highly educated/trained people leave the country. Efforts to reduce specific skill shortages through improved education opportunities may be largely futile unless measures are taken to offset existing incentives for highly educated and trained professionals.

However, for the countries on the receiving end of this trend, the benefits are clear where a boost to the highly skilled work force spells innovation and wealth. In addition, these skilled migrants have also become hi-tech entrepreneurs. But, for the countries losing many of their best and brightest manpower, the overall effects are great. A heavy burden is placed on the provision of social services, in addition, a lag in economic development is also evident.

**Subtopic 2.2: Outsourcing the human capital**

In our growing global economy, human resources functions are becoming increasingly complex and resource intensive, which calls for some measures to be put in place. Thus, human resource outsourcing has been made common in this day and age. Human resource (HR) outsourcing involves subcontracting some of the human resource functions and duties to another company. HR outsourcing services is one of the fastest growing segments of the corporate world, as corporations increasingly seek to focus on their core competencies. This is because outsourcing allows the business to focus on its core competencies without the other aspects of business suffering from lack of time or attention. With this arrangement, the company can achieve its business goals as their partner is helping build their team. For example, in a recent study carried out by the Society for Human Resource Management (SHRM), approximately 75% of HR executives said they had more time to concentrate on achieving company goals by outsourcing some HR functions. The following are
examples of activities that can be outsourced: Employee data and records management; employees' payroll; health and welfare plans; benefits plans; performance management; recruiting and staffing; new employee orientations.

The benefits of outsourcing are as follows: (1) reduced costs of administering business functions; (2) greater effectiveness in delivering services; (3) access to world-class expertise; (4) improved flow of information throughout the organization; (5) shared risks; (6) easier management of processes and technology; (7) the most important benefit is that outsourcing frees up employees to focus more on strategic revenue generating areas of their business.

Human resource outsourcing has various implications which include the following:
1. The organization outsourcing is able to decrease costs and improve operational efficiencies.
2. Reduced capital spending as a result of no longer having to upgrade aging back-office computer systems.
3. Elimination of costly training programs needed to give employees newer web-based technologies.
4. The company offering the outsourced services benefits greatly in terms of being able to remain in operation and being in business. It also guarantees job security to its employees as outsourcing contracts run for many years.

Note: outsourcing contracts typically run for 7-10 years with possibility of renewal, depending on the company on the receiving end.

Apart from being done within a nation, outsourcing make cross boarder as globalization seems to spread global sourcing and subcontracting. The term offshore sourcing refers to a situation where some activities involved in the making of a product are performed abroad (Arndt, 1997).
Topic 2: Human capital and K-economy

In the agricultural economy, wealth was measured by land and produce while in industrial economy wealth was measured by industrial output. Thus, one's wealth is indicated by the amount of land, agricultural produce and/or industrial output (The Star, 2001). But, k-economy takes one step further – i.e. wealth is not only measured by agricultural or industrial products, but by the new value created through the resourceful application of knowledge. In other words, k-economy is about knowledge and the ability to use it to create new value and wealth. Wealth is measured by the results of knowledge that is inventively applied. Thus, in k-economy agriculture, knowledge could be put to work more effectively through better planting materials, improved horticultural practices or enhanced means of trading agricultural products (The Star, 2001).

The nature of the k-economy is that knowledge changes all the time and becomes obsolete very quickly. In addition, a knowledge-based economy relies primarily on the use of ideas rather than physical abilities and on the application of technology rather than the transformation of raw material or the exploitation of cheap labor. Consequently, product cycles are shorter and the need for innovations is greater; trade are expanding world wide, increasing competitive demand on producers (World Bank, 2003). In short, in the k-economy, pure muscular strength is no longer an advantage. The ability to learn, think and apply knowledge in shared working environment is the key to success in such economy.

The global knowledge economy is transforming the demands of the labor market throughout the world. It also places demand on citizens, who need more skills and knowledge to be able to function in their day-to-day lives. In other words, human capital development efforts are extremely crucial in ensuring a nation's survival and competitiveness at the global level. Thus,
education, training and life-long learning is crucial in preparing workers to compete in global economy.

However, the development of k-based workforce is a must before the development of k-based industries. On top of the conventional knowledge indicators such as literacy rates, secondary and tertiary enrolment, expenditure on education and R&D, and the availability of info- and infra-structure, k-economy stresses very much on the enrolment in science and technology-relate studies, training and re-training of workers, cultivation of thinking and innovations skills, and life-long learning culture (Tan, 2003). As such, developing countries and countries with transition economies risk being further marginalized in a competitive global knowledge economy because their education and training system are not equipping learners with skills they need (World Bank 2003).

**Topic 2: Human capital and gender**

Before discussing further on issues related to gender and human capital development, students must understand the following concepts:

1. **Gender**: The concept refers to the social difference and relations between men and women, which are learned, vary widely among societies and culture, and change over time. Thus, the concept of gender is used in analyzing the roles, responsibilities, constraints and needs of women and men in all contexts.

2. **Gender equality**: The concept means equality between men and women; the freedom to develop and make choices unhindered by gender stereotypes, roles and prejudice; that the different behaviors, aspirations and needs of women and men are considered, valued and favored equally. It does not mean that women and men have to
become the same, but their rights, responsibilities and opportunities do no
depend on whether they are born male or female.

Study on gender and human capital is relevant especially in the k-
economy era because,
1. There are 6 billion human beings live in the planet, and more than half are
women and girls. Unfortunately, they constitute 2/3 of the world illiterates
and 70% of the poor. Basically, women are increasingly the ones who
suffer the most poverty, i.e. having higher incidence of poverty than men.
Worse, women's poverty is more severe than men. In addition, there is a
trend towards greater poverty among women, particularly associated
with rising female headship of household
2. In general, in all regions of the globe and every segment of society, in
both developed and developing countries, women and girls are denied
the opportunity to enjoy their human right, which in turn deprives all men,
women and children and societies as a whole of valuable human
resources, because:
   a. Mother's education, health and income level is the most important
determinant of children's wellbeing.
   b. Support for stronger roles for women in society contributes to
      economic growth through e.g. improved child survival rates, better
      family health.
3. Human capital development is one of the key to achieve better
economic wellbeing through one's ability in securing higher paying jobs.
As such, providing educations and necessary skills can lead to capacity
building or improvement of ability among women. Consequently, it helps
them to achieve economic independence and empowerment
especially among women.

In Malaysia, regardless of gender, one can enjoy equal opportunity to
developing one's human capital. In fact, the advancement of women in social
and economic fields is a clear indication of such equal opportunity between
men and women in terms of education and training. Refer to the following table in the Ninth Malaysia Plan to understand the issue at hand in Malaysia:

- Table 13-1: Population structure by gender
- Table 13-2: Employment by gender and sectors
- Table 13-3: Employment by gender and occupation

Fact about women:

“At the same time that women produce 75 to 90 percent of food crops in the world, they are responsible for the running of households. According to the United Nations, in no country in the world do men come anywhere close to women in the amount of time spent in housework. Furthermore, despite the efforts of feminist movements, women in the core [wealthiest, Western countries] still suffer disproportionately, leading to what sociologists refer to as the “feminization of poverty,” where two out of every three poor adults are women. The informal slogan of the Decade of Women became “Women do two-thirds of the world’s work, receive 10 percent of the world’s income and own 1 percent of the means of production.”


Worldbank (2003), Lifelong Learning in the Global Knowledge Economy: Challenges for Developing Countries, Washington DC: The World Bank
UNIT 7

HUMAN CAPITAL DEVELOPMENT: AN ISLAMIC PERSPECTIVE

Objective of the unit: After going through the unit, student will be able to:

1. Understand the purpose of human creation
2. Comprehend the concept of human development and human capital development from the Islamic perspective
3. Analyse the similarities and differences between the conventional and Islamic perspective of human capital development

The Content:

Topic 1: Man as Caliph
Topic 2: The concept of human capital and human capital development
   Subtopic 2.1 The objective of human development in Islam
   Subtopic 2.2 Human aspects that needs to be developed
   Subtopic 2.3 Characteristic of human development in Islam
The unit begins by reviewing the role of a man in this world. Then, discussion on the objective of developing human in Islam will be discussed, emphasizing on the human aspects that need to be developed and the characteristics of human development. The purpose is to help student to understand the following unit which contains the following topics:

1. The role of human kind
2. The concept of human capital and human capital development

Topic 1: Man as caliph

The objective of human creation is to serve Allah. This is clearly explained the following verse

I have only created Jinns and men, that they may serve me

(Al-Dzaariyat, 51:56)

This becomes the guiding post for human all of human conduct in this universe. Allah also clearly explains that the role of human in this universe is to become the caliph or Khalifah. The role assigned to human as caliph is evidence the the following verse
Behold, thy Lord said to the angels: "I will create a vicegerent on earth." They said: "Will Thou place therein one who will make mischief therein and shed blood? - whilst we do do celebrate Thy praises and glorify Thy holy (name)?"

[Baqarah, 2:30]

Noor Shakirah and Mohd Azizan (2007) explain that the word caliph means "the highest leader." According to Zakaria (2007), the word caliph or "khalifah" refers to prophet Adam and human being who come after Adam, from one generation to another were appointed by Allah as khalifah. The role of the khalifah is to strive in implementing the rules of Allah in this world until quality civilization is developed. Thus, consistent with the word caliph, human is the leader of the universe. And, as a leader, human are bestowed with mind (aql) which are not provided to other creatures. Thus, human is the best creation. This is consistent with the following verse

We have indeed created man in the best of moulds

[Al-Tin 95: 4]

The human mind enables them to receive knowledge that should be used as a way to balance the other elements in human which is his/her desire (Nafs). In addition, human is created with two distinct but related forms: the physical and spiritual being (ruh). Consequently, human responsibility consisted of both elements. Thus, it is vital for human to be developed in balanced in each group of these two elements to effectively function as caliph.

Allah also created all things in this world for the benefit of human whom had been appointed as "caliph." As such human are given the honor to be the guardian and managers to all the creations. This is evidenced from the following verse

Seest thou not that God has made subject to you (men) all that is on the earth, and the ships that sail through the sea by His Command? He withholds the sky (rain) from falling on the earth except by His leave; for God is Most Kind and Most Merciful to man

[Al-Hajj, 22:65]
And he has subjected you to you, as from Him, all that is in the heavens and on earth: behold, in that are Signs indeed for those who reflect. [Al-Jathiyyah, 45:13]

As the caliph, human determine the direction of all physical development in various aspect of life around the human themselves. Thus, be it a good or bad direction or path taken will be fully depended upon the guardian of the universe itself. This is evidence indicating the important role shouldered by human towards the living things in the universe. Hence, in order to achieve success (falah) in this world and in the hereafter by improving individual overall capabilities in managing the universe, Islam declares seeking knowledge (as a method of developing human) as areligious duty, equally binding on men and women.

**Topic 2: Human capital development**

Man as 'capital' is comprised of various domains, from the economic developments to nation integrity and prosperity. Similar to that of the conventional perspective, Islam also believe that human capital has to be polished, refined and tested before its potential can be fully utilized. In other words, human capital development is a necessary process. In fact, human capital development is strongly emphasized and a core agenda in the Islamic teaching Al-Quran and al-Sunnah (Prophetic Traditions).

However, unlike the conventional perspectives, Islam view man's role in this world as caliph who strives for faalah. In addition, Islam also believes that human consisted of not only flesh and blood but it also has soul. Consequently, Islam emphasis on the development of human capital in a balanced and holistic manner from physical, phychic as well as spiritual aspects of man in order
to generate a dynamic and quality man. Thus, human development in Islam is
defined as efforts in developing physical and mental strength until one’s
develop noble personalities such having faith in Allah, patience, honest etc.

In other words, in Islam, man needs to be developed beyond the purpose
of having quality labor. Thus, the concept human capital development in Islam
is more suitably referred to as human development which concept is more
wholistic. However, for the purpose of this module, human development and
human capital development is referred to as similar concept even though the
former is broader concept than the latter.

Zakaria (2008, p.3), define human development as “continuous lifelong
efforts in cultivating and extend the human potentials so that particular human
being has strong faith towards pillars of faith, able and always motivated to
contribute towards goodness and wellbeing of his/her own, other people and
the overall environment. In addition, s/he becomes ready to carry out efforts in
preventing the munkar that can destroy human wellbeing”

In short, Zakaria’s (2008) views human development as to the effort of
developing the self with positive values that are parallel to the shariah so that
human presence in this universe would become the source of good and
wellbeing and not otherwise. Human that is not properly developed or guided
with such principle will easily sway into following his/her whims that it will disrupt
the real purpose of human existence. This is evidence from a hadith that discuss
about human greed:

> From Ibn ‘Abbas and Anas bin Malik r.a., the prophet said “if the
> son of Adam had a valley full of gold, he would wish he had two.
> Yet nothing will fill his mouth except the dust (of his grave) ....”

Thus, from this perspective, Zakaria (2008) view human development as self-
cleansing (tazkiyyat-al-nafs). That is cleansing the human from evil deed s and
behaviors. In other words, human development is seen as equipping human
capabilities so that s/he can realized his/her potentials in line with the shariah
and avoiding human from being controlled by their nafs and consequently
lured and trapped into evil doings.
After learning the concept of human capital/human development from the Islamic perspective, it can be concluded that the foundation of human capital development in Islam aims to achieve the following objectives:

a. **Increase the level of faith**
   Faith is the core to Muslim personality because without strong faith, live as a Muslim is meaningless. Islam clearly differentiate between the mukhsin and the sinner (e.g. thief, murderers)

b. **Cultivating good morals**
   Clensing human from low and bad values (madhmumah) which is the characteristic of negative whims (Nafs al-ammarah) and consequently cultivating human with noble attitudes and morals that fits the characteristic of positive whims (Nafs al-mutma’innah)

c. **Developing the human resources**
   This objective aim to develop a pool of ‘players’ in the development through educational system that possess balanced Intellegent Quotient (IQ), Emotional Quotient (ESQ) and Spiritual Quotient (SQ) to avoid problems such as corruptions and destruction of the environment.

d. **Improve the quality of life.**
   Seek to improve the quality of life in all aspects such as morally, economically, socially, politically etc.
Subtopic 2.1 Aspects of Human Development

According to Atikullah and Mohd Nizam (2008), the concept and process of developing human must consider the following factors:

1. Recognizing the components of human creation (physical and ruh)
2. Understanding and acknowledging the role, the responsibility and the purpose (ultimate goal) of human living

Thus, recapitulating our previous discussion, human development in islam is a process of moulding and developing a balanced and solid human in terms of his/her ruh and physical being, so that human are able to successfully carry out the trust (amanah) of Allah as a caliph in this universe and obtain blessing from Allah in both this world and in the hereafter.

Thus, to achieve such mission, it is important to identify aspect of human that are vital to be developed. According to Atikullah and Mohd Nizam (2008) and (2008), in Islam, the human aspects that need to be developed to achieve the objectives outlined are:

a. The soul/spirit (Ruh)
b. The desire (Nafs)
c. The heart (Qolbu)
d. The intelligence/mental (‘Aql)
e. The physical being (Jasad)

The soul. The Quran explained that existance of human soul (ruh) as part of the being must be acknowledged although not much is known to human.

When I have fashioned him (in due proportion) and bethed into him My spirit, fall ye down in obeisance unto him

(Al-Hijr 15 :29)
They ask thee concerning the Spirit [of inspiration]. Say: “The Spirit (cometh) by command of my Lord: of knowledge it is only a little that is communicated to you. [O men!]

{Al-Isra’ 17 :85}

If food (as an example) can satisfy the physical needs of human, the spiritual needs must be fulfilled with activities that will enhance one faith and enrich the soul such as through ‘ibadah (religious deeds). For example, prayers (salat) which involve physical movement has a profound spiritual effect if it is performed flawlessly. As such, salat is able to avoid one from committing evil and bad deeds. It is through ‘ibadah that one’s faith is strengthened. Islam suggested that perfecting the soul (ruh) should become the end goal but without neglecting the physical aspects as the former cannot be achieved if the latter is neglected.

The desire. The Nafs is important for human living because without Nafs there will be no prosperity and advancement (i.e. the desire to be better etc). Human possess Nafs with three characteristics (level) and that each of these competing energies try to overpower one another (Noor Shakirah and Muhd Azizan, 2008).

The Quran mentioned about three types of Nafs: Nafs Al-mutmainah; Nafs al-lawwamah and Nafs al-ammarah. Nafs al-mutmainah is the serene and tranquil self who accepts/acknowledge Allah’s blessing and compassion with what is destined for him (qada’ and qadr) through the remembrance of Allah and feeling His nearness. Nafs al-lawwamah is the part of self that criticise oneself a lot for or regret of one weaknesses or mistakes. Nafs al-ammarah is the self that driven oneself towards bad deeds and constantly calls for someone to follow one’s whims, leading him/her to the wrong path (fasiq).

The development of Nafs is closely linked to (internal) self development. That is, cleansing the soul from evil deeds and implanting them with good ones (Noor Shakirah and Muhd Azizan, 2008). In other words, it is an effort of breaking the control of Nafs al-ammarah in ones heart or soul, and improving such Nafs to a higher level namely Nafs al-lawwamah and al-mutmainah. Consequently, it will avoid one from committing evil deeds (mazmumah).
The heart. Human heart is the core in determining the manifestation of either good or bad in human. This is supported by the saying of prophet in one hadith: Refer to Hadith no 39

In short, the importance of human heart made it the core to the “human system” that other human element become pheriperals. Thus, human heart need to be developed according to the guidance of Allah. Human heart that are properly developed will bring about the higher desires (Nafs al-mutma'innah) instead of the lowest desires (Nafs ammara).

The intelligence. As explained above, human possess ‘aql which differentiate him/her from other creatures. The ‘aql should be able to understand the truth, the power and greatness of Allah and carry out the commandment of Allah and avoiding the prohibitions all aspects of his/her life whether it involve his/her relationship with the creator or dealings with other human being. ‘Aql with such characteristics will be able to control his/her animal-side [the Nafs] and straightened it to the right direction. However, unguided mind can go stray from the right path, the path of Allah (Atikullah and Mohd Nizam, 2008). Consequently, it can become disastrous to human being, especially when the mind is used to reject the truth revealed by Allah instead of using it to strengthen his faiths and find ways to effectively carry out his duty as caliph.

The physical being. Apart from the spiritual and metaphysics, islam does not reject the importance of developing the physical human aspects such as physical health and appearance and other physical development such as prosperous economic environment, physical infrastructure, science and technology for the benefit of human himself. However, the physical advancement must be developed based on and parallel to the development of ruh (Atikullah and Mohd Nizam, 2008).
Subtopic 2.1 The Characteristics of Human Capital Development

- **Comprehensive**
  Encompasses the overall daily activities of man as Islam is a way of life

- **Balanced**
  Balanced development of the human intelligence (IQ), spiritual and emotional intelligence (ESQ) to avoid negative behavioral implications

- **Multi-dimensional**
  Covers both human and spiritual aspects such as self development programs such as motivational camps should not neglect prayers when it is time to pray development

- **Brought about changes**
  Improvement in both quality of life (self) and faith

- **Fully utilizes the Quran and Sunnah**
  Human development should be based on the two main sources of Islamic teachings: Quran and Sunnah. Quran and Sunnah provides the guiding principles in human development e.g. courage, tolerances, creativity, and pursuing the permissible (halal) earning
In conclusion, the concept of human capital development in Islam resembles more of the concept human development. As such, all aspect of human – the intelligence, spiritual aspect and so on, must be developed in accordance to the Islamic teaching. Islam also view human development in Islam as a method of equipping human capabilities so that s/he can realized his/her potentials in line with the shariah and avioding human from being controlled by their nafs and consequently lured and trapped into evil doings. Consequently, human development in Islam has broader goals that span not only on achieving worldly gain but also striving for faalah (success) in the hereafter.

1. From your reading above, explain what becomes the basis of Islamic teachings?
2. Human are created with purposes. What is the Islamic view of human role in this world and what become the objective of an Islamic man?
3. Compare and contrast the similarities and differences human capital development in both conventional and Islamic perspectives.


