

## Chapter 4

# Education and Human Capital: Driver or Challenge for Development?

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### ABSTRACT

*In European Union, human capital along with its basic expression education has been placed high on the policy agenda. This chapter aims to analyze the human capital in Greece, in order to provide an integrated overview on how well Greece is operating its human capital and education targets, under the terms of Europe 2020 strategy. Consequently, the achievement of the relevant ethnic targets is vital, for having a “smart, sustainable, inclusive growth” in Greece.*

### INTRODUCTION

After almost five years of negative trends, namely economic unrest and high levels of unemployment in several Member States with stark differences across the European Union (Eurofound, 2014), an everyday changing reality is a fact for national economies and societies.

European states have so far focused on economical reforms, but it is also essential to focus more on the creation, mobilization and increase of human capital, as key element for achieving and securing an inclusive growth, sustainable development and to greater social and economic cohesion (OECD, 2014a; Ostry et al., 2014; Pickett et al., 2014). Inclusive growth becomes a major challenge for many countries around the world, along with sustainable development, which is a fundamental and overarching objective of the European Union, as enshrines in the Article 2 of the Treaty on European Union (Eurostat, 2013).

Human capital and education in general, can serve as a response to major social and economical challenges. Failing to pay attention and neglecting such an important factor as human capital in the present will lead to significant costs in the future, since the key for the future is the investment in talent, skills and capabilities of people. All in all, this chapter aims at achieving a better understanding of human capital and education in Greece, in order to provide an integrated overview on how well Greece is operating and leveraging its human capital, especially under the terms of Europe 2020 strategy. Greece is an ideal case study, since the crisis transformed the labour market, along with country's entry into the

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European stabilization mechanism in 2010 (Papadopoulou, 2013; Ward-Warmedinger & Macchiarelli, 2013; Christopoulou & Monastiriotis, 2014; Matsaganis & Leventi, 2014). As Giannitsis and Zografakis (2015: p. 22) state “sharp income reductions and soaring unemployment rates have been the most severe economic consequences of the crisis in Greece”.

In what follows, we present the context and characteristics of human capital. In addition, we analyze the human capital theory. Also, we present the current situation in Greece, in order to give a concrete view of education and assessment of targets of Europe 2020 strategy, related with education. In the final part, we provide some conclusions and recommendations.

## **HUMAN CAPITAL AND THE HUMAN CAPITAL THEORY**

This section provides an overview of human capital as a term and gives an extensive description of human capital theory, the latter being fundamental to answer questions related to the uneven development in countries, questions that are in the focus of research interest of economists.

### **Human Capital**

The emergence of capital as an important economic concept took place in the late 1950s and 1960s. At that time, economists such as Theodor Schultz began to use the term “capital” to interpret the role of education and to promote development.

By definition, human capital includes the stock of individual’s talents and abilities, such as physical characteristics, talent, knowledge and qualifications. In addition to physical abilities, human capital can be improved by training or experience. Consequently, human capital has been viewed as a function of education and experience, the latter reflecting both training and learning by doing, within and outside workplace. Moreover the abilities and skills included in the definition of human capital cannot be only general (reading and writing skills), but also specific to the relevant working environment.

The related term of human capital stock is described as,  $h = \sum d_i \times a_i$ , where  $h$  is human capital per worker,  $i$  the level of education,  $a$  educational attainment of the labour force and  $d$  is the educational expenditures for the  $i$  level of education, as share of GDP.

Therefore, education is the key component in the production process of human capital, together with on-the-job training and learning and cognitive skills. Education affects economic growth, both directly as well as indirectly, by influencing the other factors of production and total factor productivity. Also, it means different things to different stakeholders, namely individual welfare and the national economy. According to the Human Capital Report (World Economic Forum, 2013: p.3), “in the business world, human capital is the economic value of an employee’s set of skills. However, to the policy maker, human capital is the capacity of the population to drive economic growth.” Consequently, human capital as an investment can also benefit national economies and boost economic growth (Borjas, 2003; OECD, 2007).

### **Human Capital Theory**

Development as a process and as a target has been studied in many disciplines, but its economic aspect was investigated through the Human Capital Theory. Among the beginners of the theory were Schultz

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