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Ambitions and Altruism - People, Profit, Planet
Three Ps for a weconomy

Time and accumulation of human capital

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Abstract

In which way does time influence economic variables? In particular how is it possible to improve the accumulation of human capital with the passing of time, which is one of the most important factors in the growth of wellbeing?

Today there has been much discussion about the role of time. Time is the wire that joins past, with the present and the future. It's impossible to understand the conditions of the present reality, without considering one's own history. At the same time we must work now to create the conditions for one's own future wellbeing.

Schools, culture and the media have important roles to play in spreading principles, values, and techniques in society, so that it will be possible to accumulate the human capital indispensable to develop a dynamic social system, productive and fair.

Human capital is imbued with inseparable exquisitely personal elements, themselves derived by the history of the states and of the individuals. The awareness that this personal endowment constitutes one of the most relevant social assets should be fairly clear to younger generations.

Dear students and professors, in this meeting I would like to focus on the analysis in what way does time influence the economic variables. In particular how is it possible to improve with time the accumulation of human capital, one of the most important factors in the growth of wellbeing.

Which arguments should you as young students follow?

Remember! My discussion is influenced by my Italian and European perspective.

- 1. Currently, there is much debate concerning the influence of time on human life. Time is the thread that links the past, present and future. It is impossible to understand the current conditions without looking back at the history of the state or the individual. Looking to the future, one cannot shirk their own responsibilities to future wellbeing; every**

moment of every day together must create the conditions to allow your own future wellbeing and that of society.

2. School, further education and university, culture and the media have an important role in sowing the seeds creating a society which is principled, has values and skills, so that it creates the right human capital to develop a society which is dynamic, productive and fair.

Is education an important contributor to the growth of wellbeing?

Edward Denison (1985) shows in the period between 1929-1982 approximately 1 / 4 (a quarter) of the USA growth in GDP per capita was determined by increase in educational level of the average worker.

The current Asiatic growth is linked to the growth of human capital. It is the spread of human capital and knowledge that has allowed the increased pace of development in the emerging countries.

However, the results show that the educational input is not totally dependent or influenced by the amount of public or private investment in schools. The data from OECD from the research "Education at a Glance" from 2010 confirms this. In Finland where spending on education at primary and secondary school level is less than that of the United Kingdom, France and Italy, Finnish students aged 15 according to the OECD-PISA test (Programme for International Student Assessment, organized by OECD in 65 countries) are among the highest performing in the world. While Italian performance is embarrassingly low, the reason for this is above all the significant underperformance of the students in the South of Italy. The better results come from countries where schools are more autonomous from the central state, where freedom to learn and to teach is encouraged and where the cohesion of the society is strong. Therefore, learning becomes an important and useful link for the whole of society. The belief that education is of value gives weight to the belief that the accumulation of knowledge with time will become human capital. And that will push growth of wellbeing.

3. In the last ten years freedom and economic growth have converged in a great part of the world, and many countries have occurred side by side, the passing of recent time has been positive. Looking back, why have the Western countries become rich? On what basis are the emerging countries quickly finding their place in the world?

The Six Killer Applications (Niall Ferguson, Harvard University, 2010) that led to Western dominance in the last centuries were: competition, scientific discoveries, property rights and representative government, modern medicine, a consumer society and work ethic (with intensive work, earning and saving). However, time is no longer an obstacle unlike previous centuries. The emerging countries are applying the six killer

apps. Time is no longer an advantage to defend the West like it used to, time has become a challenge.

Creativity (Richard Florida, Carnegie Mellon University of Pittsburgh, 2002) and an experimental approach have been in my opinion key to its success.

But there is another killer apps that Niall Ferguson has ignored, that is the liberty of the individual and in society. Liberty is inextricably linked with the development of human capital. Humanistic knowledge, scientific knowledge and ownership of technology, medical cures, economic skills which altogether help to make choices, can only occur in an environment which is open and free. Liberty permits to accumulate with time human capital. We Europeans have helped the USA to understand the importance and role of this capital. However, we are now envious and critical of the US. Sometime we prefer social market economy. Within Europe we tend to talk less of human capital, we hold it to be an ideological outcome of the free market economy. I do not believe this is an appropriate strategy and I will try to demonstrate this with the following.

4. Human capital is made up of the inseparable elements which are uniquely personal. How is it possible to analyze the individual elements? How do you recreate it in a convincing way? School and university constitute the most important learning period of time in the accumulation of Human capital. Use your time wisely, they will bore fruit. Learn to manage your emotions and your health. A formal education is important, but also all that you learn outside the formal environment is important too!

Initial and continuous training is a cost to the enterprise in terms of time and for employee in terms of a reduced starting salary. This corresponds to depreciation of the investment in the human capital which is paid in advance. Investment in human capital reduces immediately pay as depreciation is a cost, but this is then compensated in the future with a bigger return using the human capital.

Looking at Gary Becker's diagram (Chicago University, Nobel Prize, 1993)

To calculate the capital plus interest, it's used Capitalization of interest = $C \cdot (1 + i)^n$

- i : the increase in human capital occurs through an internal rate of return which is in part made up of external factors (these are the values imposed by business activity, life, family, culture and society) and internal factors, that I think are prevalent. You as an individual can increase your value in terms of human capital. The interest rate depends on the return, the risk and the uncertainty in the markets.

- n : the number of years. As n increases, so will the value of your human capital. So it is important to start straight away to increase your capital, within your fields of talent and interest, allowing you to amass with time as much human capital as possible.
- C : how do you calculate? $C = \text{Revenue} - \text{cost}$. The monetary revenue seems to be the principle aspect but this is not the only part, there is personal and collective satisfaction, self actualization, measure one's results against the activities completed, obtaining positive results and continuous improvement. The costs are monetary costs and opportunity costs, such as the earnings not perceived, the time dedicated to accumulation and the desire to achieve.

Let's look together at other questions to be considered.

Is it a good idea to invest in training which leads to specialization in one sector or in more? Possibly complimentary? It depends on the dimensions of the market in question and the strengths of the enterprise, as a minimum it is a benefit to cultivate at least two areas of specialization at a time, not just focus on the one on its own, even though it is true that one specialization is a strong force in maximizing the human capital.

What do we mean by person? The human capital is embodied in you, you are the person that will increase the value to be capitalized. Natural ability and talent have great value. But just as important is effort, loyalty, conscientious, plays fair, self aware, these are skills that are acquired which facilitate natural ability and talent. Time in this case can help to fuse and grow the entire person.

Bringing together all of these elements in the individual will also create a social patrimony which is relevant and needs to be cultivated with great dedication. Look inside yourselves honestly, do you use your time effectively, you need to understand how and when you need to increase your abilities.

Human capital is a right which you own, and in this way it becomes a right of all of society.

5. The time in front of you is characterized with uncertainty and risk.
 - Personal uncertainty has to be managed by you.
 - Social uncertainty has to be managed on a larger scale.
 - Past generations are without contrition, but we have proposed an inappropriate idea of liberty.
 - We have focused too much on the idea of total individual liberty without any ethical limit. But at the same time we have presumed within the collective social sphere an expectation that the state would intervene, establishing limits on economic activity and entrepreneurship of the individual. I believe this to be a false idea of liberty. We need to be

conscious that the individual dimension needs to be ethically determined, it cannot be arbitrary. Whilst, individual liberty is based with a comprehension and understanding of the existence of limits, social liberty needs to be as wide as possible, with a reliable and respected, but reduced intervention of the state in the social and market sphere.

For Gary Becker the coordination of specializations is decisive, this is more important than the dimensions of the market. Therefore become a specialist, but learn to play as part of a team, be altruistic with the management of your time within your families and peers.

A gift you can give is to dedicate your time to others. Don't be jealous with your time, use it well, you could obtain great personal satisfaction and positive social results.

Relationship between age/pay by Gary Becker

