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## THEORY OF HUMAN CAPITAL IN DEMOGRAPHIC SCIENCE, MANAGEMENT OF ECONOMIC PROCESSES AND THE PROSPECT OF SOLVING DEMOGRAPHIC PROBLEM

**Abstract:** *The Scientific Work presents the theory of human capital and the prospect of solving demographic problem in demographic science. Herewith, we review the management of economic processes in human population planning. Finally, we will try to demonstrate the greatest contribution of demography as a science to the implementation of human population planning by states.*

*Modern global challenges made it clear that demography is the most important direction touching upon almost all domains. That is why, the United Nations called human population planning the 'Policy of Policies'.*

*When speaking about human population planning, it is important to consider human capital of the country, the reality and opportunities faced by the state. It is true that demography is the science about reproduction rate of population, however, this science has gained more weight today and turned into the rank of state policy. Today, human population planning not only determines reproduction rate of population but also significantly studies existing reality of human capital and the dynamics of population development of a country.*

*Some scientists consider human population planning to be basis of economy of the country, as "nation aging policy" is its significant part. And this is the backbone of the economic policy of the country. Hence, it makes part of economic security of the state.*

**Key words:** demography, human capital, nation aging, economic development, state.

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### Introduction

#### Theory of Human Capital and the Prospect of Solving Demographic Problem

Georgia is the most ancient state, which has never been numerous. However, we have always had valuable human capital developing the country. This was culture, education, local agriculture and other directions. Age segment of human capital is the strata of working age creating economy of the country. However, in view of the current demographic situation, it is necessary to use aged strata, as human capital.

In order to substantiate how important human capital is in course of implementation of human population planning, it is necessary initially to review

scientific theories of human capital, where it originates from and what function did scientists assign to it in different centuries.

Evaluation of human capital dates back biblical times, as for the measurement of economic value of a human, it comes from economic thinking. Historically, it was related to the process of trading slaves. The first scientist giving serious evaluation of the human capital was William Pitt. His evaluation was based on two theses:

1. Aggregate labor output is the difference between total national expenditure and the income derived from land and other resources.
2. The value of the population is much higher than that generated by the labor force. Such

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abstractions as those presented by William Pitt are difficult to understand and they ignore many noteworthy factors.<sup>1</sup>

The scientist Adam Smith has not determined accurate concept of human capital. He included mastering and profitability of a human in the category of fixed assets. He wrote: - "The general stock of any country or society is made of the general stock of any country or society. The acquisition of such talents, by the maintenance of the acquirer during his education, study, or apprenticeship, always costs a real expense, which is a capital fixed and realized, as it were, in his person. Those talents, as they make a part of his fortune, so do they likewise of that of the society to which he belongs."<sup>2</sup>

Experts substantiate significantly increased role of human capital in national economies. It makes up 70-80% in the national wealth of the developed countries, while this indicator cannot reach 30% in Georgia. This means that modern education and science is not yet available to the larger part of Georgian population. Georgian expert Otar Mchedlishvili considers that no new technologies and innovations are being created in science. Like in any other modern economies, one of the most important factors for economic growth and development of Georgia is human capital.<sup>3</sup>

Scientists consider intellectual capital to be the main component of human capital, which cannot grow or be effective without education and science. By the end of 20th century, developed countries declared a human, development of his/her spiritual, material or intellectual abilities as main priorities of the states and society.

At modern stage, innovative economies are formed only based on the "knowledge economy" supporting growth and development of intellectual capital in the countries. Studies of different countries and international organizations confirmed interconnection between the level of development of human capital and economic advancement.<sup>4</sup>

Effective utilization of workforce is necessary factor for achievement of high rates of economic development and economic growth in the modern global world. This is impossible without human capital. It is also impossible without implementation of radical educational reforms and increasing state expenditures on educations.

In 2019, Georgian government made decision to spend fourth part of the country budget on the education. This was unprecedented political decision in the recent history of Georgia, as such amount of

money has never been spent on education. Strategy document is being developed with the involvement of the experts. This decision is aimed at turning human capital into the backbone of Georgian economy. To develop innovative economy and science in all directions and to open ways to the young people to being creative and efficient.

Based on the actual data of the developed countries it turned out that there is Directly proportional dependence between expenditures on education and economic growth in the long run. Received knowledge and experience, under the conditions of existence of highly developed human capital, increases productivity and profitability.

Formation of human capital depends on the following factors: social-demographical, institutional, integrational, social and mental, environmental, productive, demographical and social and economic. Herewith, human capital shall be considered on national, regional and sectorial level, as well as on enterprise and individual levels.

Macroeconomic level is comprised entire human capital of entire population of the region or the country. On the enterprise level, human capital is represented by joint skills and productive abilities of all employees. On the individual level, human capital is the knowledge, skills, accumulated experience etc.

Main factors of macro environment include demographic, economic, natural, scientific and technical, political factors and those of cultural environment.

Human capital is comprised of the following factors:

- Demographic potential and structure of population;
- Structure and specialization of economy;
- Financial security;
- Type (level) of social-economic development of the region

In the Chapter One of our scientific work we discuss demographic doctrines, including Malthusian theory. According to this theory, the world could not stand growth of population, as it would not have resources: "Poverty is the result of lack of moral restraints".<sup>5</sup>

At the end of the 19<sup>th</sup> century, T. Malthus postulated the regulation on the danger of social explosion in those strata of the population that lived at the minimum subsistence level. He stated that education would become investment resource and would create the conditions, thus restricting the process of natural increase in the families. Education

<sup>1</sup> Otar Mchedlishvili, Master Paper, Human Capital, as Basic Factor of Business Development, Gori State University, pg. 4, 2020.

<sup>2</sup> Smith A. "On the Nature, Accumulation, and Employment of Stock", Tbilisi, 1938, pp. 218-219

<sup>3</sup> Otar Mchedlishvili, Master Paper, Human Capital, as Basic Factor of Business Development, Gori State University, pg. 4, 2020.

<sup>4</sup> Otar Mchedlishvili, Master Paper, Human Capital, as Basic Factor of Business Development, Gori State University, pg. 5, 2020

<sup>5</sup> Theories of demography Ernesto F.L. Amaral September 3-7, 2018, Population and Society (SOCl 312) Pg.7

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is civil freedom developing only purposeful features. Thus, according to Malthus, benefit from education would be expressed in the limiting of population growth.<sup>6</sup>

In the Chapter One, we also reviewed that Martians, followers of Karl Marx's doctrine, opposed Malthusian theory and formed completely different doctrine: - each country has its own law of population development, which determines the result of population growth. Martians opposed Malthusian capitalist methods of approach with socialistic opinions. For them, the increase in birth rate was a necessary condition for the development of the country.<sup>7</sup>

Karl Marx was first to introduce the term "hired workforce". He considered human production as consumer production and the second type of public production.

Karl Marx calls human production abilities main production abilities of the society, main wealth and main output of the work completed in the past. Herewith, the most extensive and thorough concept of the term of workforce belongs to Marx. This term is "hired workforce". He considered human production as consumer production and the second type of public production. In this process of consumer production not only reproduction takes place, but also perfection and development, certain accumulation of labor production power and creative skills of a human takes place, in view of the mental abilities.

Marx's opinions about production abilities of a human, on the one hand, became continuance of traditional English political economy and, on the other hand, they have specific features based on the class nature of the analysis. Existing natural opposition among interests of the employees and hired workforce in Marx's works become foundation to the political and not economic solution.

Largest share in the scientific research of human capital comes on the American scientists Theodore Schultz and Gary Becker. According to Schultz, the level of education of population significantly determines its ability to use information and technologies, for structural transformation of both - development and economy. In the article "Capital Formation by Education" published in 1960, Schultz presented own evaluations for determining value of the work force. It included all expenditures incurred by a human in course of learning.<sup>8</sup>

In the same period, second American scientist worked on the theory of human capital. This scientist

was representative of Chicago School G. Becker. In 1964, Becker published fundamental work - "Human Capital, Theoretical and Empirical Analysis" in which he determined the direction of future research of this field in many ways. These two scientists were awarded the Nobel Prize for the development of the theory of human capital.<sup>9</sup>

Authors of the theory of human capital consider expenditures on the education to be the investment in a human, while receiving knowledge is accumulation of human capital. In such case, education is discussed as the production sector, where capital is produced for long-term period, while education gives the opportunity to earn revenue during entire life, participate in the active social life.<sup>10</sup>

Based on the empirical data of developing and developed countries, scientists substantiate that there is a direct relationship between the development of human capital of countries and their levels of socio-economic development. It is the result of the significant difference between the levels of human capital development of countries that results in the classification of countries as center and periphery. Only under the condition of high-developed, competitive society focused on the knowledge of the laws of the universe it is possible to form independent, ideological and economically strong state.<sup>11</sup>

Knowledge based on the innovative economy and human capital has been best used by multiple countries: Japan, Israel, Germany, USA, China, Korea and others. Today Georgia has the potential of development of innovative economy and development of this direction is of high importance.

One of the important regulations of the theory of human capital is that its growth is the main reason for economic development, as human capital is a large part of a society's well-being. Under the modern conditions, effectiveness of economic development of the state largely depends on the amount of money invested in human capital, making the most important component of modern productive capital, represented by rich reserve of knowledge characterizing a person.

We generally reviewed theories of human capital and the factors of its origination. It seems that there are two fundamental trends in both demographic doctrines and human capital factors: Malthusian theory and Karl Marx's theory. One of them considers that human capital is human intelligence, education, used by the state for economic rise and this does not require demographic growth of population, or improving quality of education of required

<sup>6</sup> Theories of demography Ernesto F.L. Amaral September 3-7, 2018, Population and Society (SOCI 312) Pg.7.

<sup>7</sup> Khundadze Dimitri, Human Population Planning, as One of the Main Determining Factors of State Security Issues, Doctoral Work, 1st Colloquium, pg. 12.

<sup>8</sup> Shultz T, 'Investment in Human Capital, American Economic Review', volume 51, 1 March 1961, P.3.2.

<sup>9</sup> Gary S. Becker, 'Investment in Human Capital: A Theoretical Analysis', The Journal of Political Economy, Volume 70, Part 2, October 1962.

Sophiko Khachidze, Master Paper on the topic: Investments in Human Capital and Its Impact on Economic Development; pg. 17.

<sup>11</sup> Sophiko Khachidze, Master Paper on the topic: Investments in Human Capital and Its Impact on Economic Development; pg. 70.

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population. While Karl Marx found human capital in working class, hired work force and made conclusion that economy of a country is increased not only by human capital accumulated in the economy of a country, but by lower working class. This is why his theory is based on numerical growth of population.

Today, human capital is flowing out of Georgia, both from the educated strata, mainly young people, and from the productive strata, i.e. hired labor. This endangers economy of the country and national security of the state. We hope that state human population planning applicable today will definitely have output and future of the country will no longer be in danger.

### Demography and Management of Economic Processes

Demography is comprised of several sectorial directions, including social and economic domain. Part of the scientists states that elimination of demographic problems is impossible without improvement of socio-economic conditions in the country. According to them, the increase in birth rate is directly related to the economic growth of the country.

Another part of the scientists substantiates that improvement of demographic situation in the first place requires raising national awareness among the population, so that everyone understands what problems the state is facing. In addition, the image of the world's population development is seemingly illogical, the birth rate is decreasing in developed countries with economic growth, while it is increasing in developing and less developed states. Those researchers who argue that economic growth and monetary capital are necessary for the country's demographic development are contradicted here.

There always was dispute between these two opinions. France, which had the most difficult demographic problems in the world introduced social human population planning, however, this was preceded strong information-ideological works with population headed by the country's president at the time, de Gaulle. In former Soviet Union, with the initiative of Stalin, the state developed such a strong social human population planning that birth rate after one demographic generation reached its historical peak in 60-70s of 20th century, including Georgia. Human population planning and its particular activities greatly depends on the state evaluation of the demographic condition created in the country. When speaking about human population planning, they basically mean two directions: so-called right-wing, liberal-democratic and left-wing centrist. The main

essence of the right-wing direction is non-interference in demographic processes. "Left-wing" direction means influence on the demographic processes.<sup>12</sup>

Regardless the fact that currently larger share of the countries in the world recognize right-wing direction, demographic problems are so much rooted in several states that the number of the countries of "left-wing" direction is being significantly increased. Generally, in particular way, a state always had impact on the demographic processes. In the given case, principle importance is paid to the way of understanding demographic processes by the state, public groups, families and persons. Main thing is the main goal and objectives of this policy at the mega, macro, meso and micro levels.

Famous Georgian demographer Giorgi Tsuladze writes: "Main conclusion made in this term is that the rules of such policy has always been dictated by absolutely specific condition, that would be created in any statehood-bearing and usually titular ethnos".<sup>13</sup> Some scientists consider human population planning to be basis of economy of the country, as "nation aging policy" is its significant part. This country is the backbone to the economic policy. Thus, this latter is the part of economic security of a state.

What is aging of a nation and why can it be the backbone of economy of a country, or why it conditions national security in particular way?

Aging of population - this is increase in relative share of people aged 65 and over in the total population. Increase in share of aged people in the population - population aging, represents joint outcome of demographic processes such as reduction of birth rate and increase in expected duration of life. Moreover, migration has significant additional impact on it.<sup>14</sup>

Academician Vazha Lortqipanidze says that we shall begin speaking about trends and regularity of aging by considering average age of population. Today average age of population is approximately 28. According to UN data, each 4th person (26%) is below 15, and each 14th (approximately 1%) is 65 or above. The scientist suggests that the average age will increase at a faster rate in the future. By 2030 it will reach 35. Along with the average age, relative share of population aged 65 and above will increase both in developed and developing countries. By 2025, share of the population aged 65 and above will increase twice, while by 2050, population of most of the developed countries will be demographically aged.<sup>15</sup>

A three-level scale for evaluating the demographic process has been established by the United Nations:

<sup>12</sup> Tsuladze Giorgi, Sulaberidze Avtandil, Elements of Demography, pg. 305, Tbilisi, 2015.

<sup>13</sup> Tsuladze Giorgi, Sulaberidze Avtandil, Elements of Demography, pg. 307, Tbilisi, 2015.

<sup>14</sup> Lortqipanidze Vazha, Demology, pg. 115, Tbilisi 2021.

<sup>15</sup> Lortqipanidze Vazha, Demology, pg. 116, Tbilisi 2021.

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1. If share of the people aged 65 or above in the general amount of population is below 4%, this population is considered young.
2. If share of the people aged 65 or above in the general amount of population is within 4-7%, population is on the verge of old age;
3. If share of the people aged 65 or above in the general amount of population is 7% or above, the population is demographically aged.<sup>16</sup>

According to UN data 2016, today this indicator is 8% in the world, in the emerging region -6%, in the developed - 16%, in Western Europe - 17%, and in South Europe - 18%. Africa is demographically young - 3%. North America - 12%, South America - 6%, Central America 5%.

Until 70s of 19th century, no country of the world was demographically aged. The first demographically aged country was France, where this indicator made 7.4% in those years. Until the World War II, amount of demographically aged countries was 10. Today it is above 75 countries. Such rapid growth of share of aged population, of course, significantly changes age structure of population.<sup>17</sup>

Dynamics of nation aging in Georgia is rapidly developed. Demographic Renaissance Foundation of Georgia carried out extensive research on this topic. The research was led by the scientist Anzor Totadze. According to the analysis completed by the Foundation - There is demographic winter in Georgia today, the nation is actively aging, the age structure of the population is changing. According to the data of 1950, amount of children in Georgia exceeded that of the aged people by 750 (children aged 0-15). The situation is different today. Amount of aged people exceeds that of children by 100 000. Unfortunately, we are on the fourth place in the global ranking by the dynamic of aging. Japan is on the first place.<sup>18</sup>

According to the data of Demographic Renaissance Foundation of Georgia, in 2010, more than 14% out of 4.4 million persons was 65 years old and above, and one third was 50 and above. By 2030, the rate of the population over 65 is expected to increase to 21%, and to -40% of the population aged 50 and over. According to the forecasts, average life expectancy, which was 78 in 2010 for Georgian women, and 71 for men, will increase by 2030 and become 80 (for women) and 73 (for men).<sup>19</sup>

Manager of the Foundation, Tamar Chiburdanidze states that aging of the nation is not a judgement to the country. When the average life expectancy in a country increases, this is good, but it must necessarily be accompanied by an increase in the birth rate:

- "there are two types of aging - aging from below and aging from above. Aging from below means reduction in birth rate, while aging from above - when share of aged population is increased in the country. Aging of nation is performed in both directions in Georgia. This causes problem mostly for development of economy of the country"<sup>20</sup>

Global phenomenon of population aging is directly related to the fundamental transformation of health, which is carried out in different rates in the world. Access to health care and improved services have increased life expectancy, which is good, but in the face of declining birth rates, it poses a threat to the country's economy. Children and pensioners receive dividends, while economy of the country is created by the producing strata, middle-aged able-bodied population. Today, the largest share of migration in Georgia comes from this segment. It turns out that the share of the aged persons is increasing, while the share of the producing strata is decreasing. No country's economy can withstand this. The generation born in 60-70, the largest birth stream of 20th century started entering the pension age. Their amount is increasing on annual basis. If we consider the fact that life expectancy has increased dramatically and the negative balance of migration is also increasing, it will become clear what risks such dynamics of aging are exposed to in the country. This is main threat, that stems from the aging process of the nation.

Demographic aging of population is global issue of development of the world today. United Nations Population Fund supports every country in developing and implementation of strategic document. Profound changes in age structures dictate the government of many countries to revise the strategy and economic thinking of the country's national security. Aging of the nation cause problems to the defense capability and replenishment of the armed forces, and this is directly related to the state security.

In the countries with high birth rate, there is abundance of young people. Young population is not only the source of employment, but it also represents national strength of the country. Intergenerational relations between the aged and young generations are also important, along with the combination of the values that the old generation preserved for us in the form of traditions and national culture and bring youth with the development of individualism and firm adherence to democratic principles.

The issue of aging has serious impact on socio-economic development of the country and society and in the long run it is comprised of the risks for state finances. This is why, the Committee for Health and Social Affairs of the Parliament of Georgia prepared

<sup>16</sup> Lortqipanidze Vazha, Demology, pg. 115, Tbilisi 2021

<sup>17</sup> Lortqipanidze Vazha, Demology, pg. 117, Tbilisi 2021.

<sup>18</sup> Demographic Renaissance Foundation of Georgia, Magazine "Liberali", Aging Policy in Georgia, 15.07.2015.

<sup>19</sup> Demographic Renaissance Foundation of Georgia, Magazine "Liberali", Aging Policy in Georgia, 15.07.2015.

<sup>20</sup> Demographic Renaissance Foundation of Georgia, Magazine "Liberali", Aging Policy in Georgia, 15.07.2015.

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“the Concept the State Policy on the Issues of Aging of Population of Georgia” in 2016, which was adopted with the Ordinance of the Parliament.

In July 2015, National Conference on the Population Aging Policy was held in the Parliament of Georgia headed by the Committee for Health and Social Affairs. According to the resolution of this Conference, multisectoral work group was established under the Committee of the Health and Social Affairs of the Parliament of Georgia, which was comprised of the members of the Parliament of Georgia, managing persons of the relevant ministries (deputy ministries), scientific circles, representatives of civil sector and organizations of aged persons. It was this group that prepared the document of aging policy, hereinafter the Concept.<sup>21</sup>

The Madrid International Plan of Action on Ageing was adopted in April 2002, as the first international strategic document related to the population aging. In several months United Nations Economic Commission for Europe (UNECE) was assembled in Berlin, in order to develop regional implementation strategy (RIS) of the referred plan, emphasizing the issues related to the regional situation. Regional Implementation Strategy for the Madrid International Plan of Action on Ageing determines 10 obligations, which are comprised of particular activities and political principles:

1. Mainstreaming ageing of population in all directions of policy;
2. Complete integration and participation of aged persons in society;
3. Promoting equal and sustainable growth of economy in response to the population aging;
4. Arranging social security system;
5. Allowing labor market respond economic and social outcomes of population aging;
6. Promoting adoption of lifelong learning;
7. Quality of life, independent living and health in all ages;
8. Providing gender equality among aging society;
9. Support to families providing care to aged people and promoting intergeneration solidarity among their members;
10. Promoting further actions for introduction of regional strategy for implementing above plans and regional cooperation.

In 2013, the Government of Georgia, under the leadership of the Ministry of Labor, Health and Social Protection of Georgia, requested the Economic Commission for Europe of the United Nations to help develop a guide for mainstreaming the aging

population of Georgia. The referred document would help the country in strengthening the policy for responding population aging, in view of the principle of regional strategy for the Madrid International Plan of Action on Ageing and its implementation for the year 2002.<sup>22</sup>

Guide for mainstreaming of the issue of population aging and its recommendations make grounds to the Concept of State Policy for the Population Aging Issues in Georgia. Basic lines and objectives of state policy are presented in this concept:

1. Mainstreaming ageing of population, involvement of parties concerned;
2. Integration and participation of aged people in public life, creating an age-unlimited environment;
3. Perception of the aged people and their coverage by mass media;
4. Social security of aged people;
5. Labor and employment of aged people;
6. Lifelong learning;
7. Quality of life, independent living and health;
8. Gender equality mainstreaming in the aging society;
9. Intergeneration solidarity;
10. Migration;
11. Integration of country in international process;
12. Research and data collection;

The document of aging policy is focused on the social strata of aged people in the country and utilization of their resource for strengthening economy of the country.<sup>23</sup>

Based on “A Guide to Mainstreaming the Aging Issue” and “Concept of State Policy on Issues of Population Aging in Georgia”, the Government of Georgia developed national plan of action for the years 2017-2018, which is aimed at actualization of the approach of “active aging” in the state policy and programs. The Plan of action is agreed with all participating representatives within the framework of the multi-sectorial work group for development of policy and action plan related to the aging issues.<sup>24</sup>

Scientists assume that the demographic aging of the population around the world will become the most important phenomenon of the 21st century. Current changes in the age structure of population require development of new social and innovative policy. We believe that, since demographic aging is followed by diversified consequences, it should become the subject of a complex study of many disciplines.

<sup>21</sup> The concept of state policy on population aging in Georgia, Legislative Herald 010240020:09.01.016348, Ordinance of the Parliament, 27.05.2016

<sup>22</sup> The concept of state policy on population aging in Georgia, Legislative Herald 010240020:09.01.016348, Ordinance of the Parliament, 27.05.2016.

<sup>23</sup> The concept of state policy on population aging in Georgia, Legislative Herald 010240020:09.01.016348, Ordinance of the Parliament, 27.05.2016.

<sup>24</sup> National Plan of Action on the population aging issues in Georgia for the years 2017-2018, Ordinance No. 490 of the Government of Georgia, Tbilisi, 2.11.2017.

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We reviewed demographic process and legal and political relations. We reviewed the role of human capital in course of demographic development of a state and, main thing is that we learnt the dynamics of nation aging in Georgia, which is directly related to the economic development of the country. Therefore, we can again substantiate our opinion:

- human population planning is recognized by the United Nation to be Policy of Policies. If human population planning is the backbone to all policies, it completely determines the issues of state security. Moreover, when development of states is directly related to the natural increase of population, the processes of migration and aging of population.

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