

**“HUMAN POTENTIAL” AND “HUMAN CAPITAL”:  
SIMILARITIES AND DIFFERENCES**

**Problem definition.** Nowadays along with concepts “human resources”, “human development”, “labour potential” there are also widely used concepts “human potential” and “human capital” both in scientific literature and media as indicators reflecting economic and social development of the country.

Despite numerous research works on human potential and human capital, in the scientific literature one clear definition is absent about what is human potential, what is the differences in concepts “human potential” and “human capital”. Moreover, it is often possible to find the works in which concepts “human potential” and “human capital” are considered as synonyms. Indeed, these concepts are not identical and have a bit different semantic meaning. The most often they are identified in the attempt to measure human potential of the country (world) in general, to calculate costs on forming and producing human capital as well as calculate economic efficiency of the particular items of expenses (usually on education and training of qualified specialists) [1; 2].

Differentiation between “human potential” and “human capital” is necessary for defining their dialectics, for correct comparison of value estimations carried out by global organizations and researchers for building mathematical models of economic growth (among them it is essential to mark out, for example, the models by R. Lukas, P. Romer, G. Mankiv-D. Romer-D. Whale, D. Romer), in which they use statistic data about particular economic indicators included in these concepts [3]. Lack of mentioned information causes the necessity to simplify the model involving only limited number of indicators about which data is available.

**Analysis of the latest research and publications.** The basics of analysis and science about a person's productive ability were laid by the classics of political economy such as W. Petti, A. Smith, D. Ricardo, A. Marshall, F. List, K. Marx. Research of theoretic approaches to estimation of human abilities as one of the kinds of capital could also be found in the works by J. M. Keynes, J. Schumpeter, T. Veblen, J.-B. Say, J. H. von Thünen, L. Walras, J. M. Clark, I. Fisher, M. Friedman and others. The most significant contribution into the theory of human capital was made by T. Schultz [4] and G. Becker [5]. Newer research on the given topic are represented in the works [1 – 3; 6 – 23].

Aims of the article. We try to analyze the problem of semantic meanings of the concepts “human potential” and “human capital”, their similar and different features, relying on scientific investigations.

**Main body of the research.** The conception of “human capital” became wide-spread in 1960s. The most significant contribution into its development in late 1950s – early 1960s was made by Nobel prize winner of 1979 T. Schultz and Nobel prize winner of 1992 G. Becker and later by their followers, famous American and British economists B. Veisboard, J. Mincer, L. Thurow, J. Ben-Porath, Z. Griliches, M. Blaug, E. Denison, M. Woodhall, G. Kendrick, B. Chiswick, F. Welch, R. Lukas, J. Psakharopulos, K. McConnell, S. Brue, E. J. Dolan, J. Coleman, R. Layard, H. S. Martin, Sh. Dow, T. Lawson, J. Hodgson and others, who put human factor into the system of economic notions. In contrast to already existing scientific research, major attention was paid to the processes of creating qualitatively new workforce [6].

The theory of human capital takes people as one of the factors of production and pays major attention to forming qualities necessary in the sphere of social production.

T. Schultz, talking about the concepts “human potential” and “human capital”, noted that “all the human resources and capabilities are either inherited or acquired. Every person is born with an individual complex of genes which define his/her inherited human potential. Acquired human assets strengthened with correspondent investment we call “human capital” [4]. G. Becker thought that human capital is ability of the person to produce goods and services. [5].

As V. I. Martsinkevich says, putting human factor into the system of economical concepts means radical change of logic, structure and content of all its components. Human factor he sees as not only the source of economical opportunities, but also strict examiner of economic and social abilities of the economy [7].

However, it should be said that despite the numerous research and scientific works researchers didn't have a single approach to the definition of the concept of human capital. But all of them agree in one: human capital becomes capital (as well as physical resources) only after particular investments in it and being capital it takes ability to give correspondent output in time.

In the end of 1990s the conception of steady growth and its key concept “human potential” were formed. In forming the theory of “human potential” decisive significance belonged to the research by K. Griffin, T. McKinley, M. Ul-Haq, R. Jolley, A. Kornea, A. Sen.

The theory of “human potential” comes from the special role of a person in the modern society. Significance of a person is not limited only to the necessity of investments into his/her development, and development of a society doesn't go only to increase of volume of material values and services, rise of material or economic welfare. It is also needed to give every citizen, every person the conditions and opportunities necessary for earning respectable income, realization of the creative potential, mastering required knowledge, non-stop education, development of capabilities and getting qualifications, long and healthy life. Human potential in its meaning is much wider concept than human capital [8]. Conception of development of human potential means the analysis of all the important questions of social development from the position of personal interests and broadening opportunities.

The opinion of A. Sen, the Nobel prize winner in Economic Sciences in 1998, the value of human potential cannot be expressed in only cost or quality indicators. Understanding human potential means estimation of social life quality, of economic conditions for formation and realization of a person's potential in labour or other socially recognized activity and if these conditions are created, human potential can be realized as human capital becoming a source of income for its bearer and source of economic growth and social progress for the society [9].

Conceptual research by A. Sen were continued in annual reports about human development by the international organization United Nations Development Programme (UNDP), the first of which was made in 1990 with estimation of economic and social progress of the countries of the world and there the concept of “human development” was formulated. This edifice is oriented on increasing quality of human life, broadening and improving their opportunities in all the spheres. Main strategic instrument of the conception of human development was Human Development Index (HDI), worked out in 1990 by Pakistani economist Mahmud ul Haque [10]. Human Development Index in countries and regions of the world is calculated by the experts of UNDP along with the group of independent experts who use both analytical research and statistic data of national institutions and international organization for this work. For its calculation they consider three types of indices: expected lifetime; level of literacy of population on the country and expected time of education; standards of living which is estimated through GDP per capita on PPP in US dollars. The method of calculation of Human Development Index

is as following: on every mentioned index they define the level of country's relative achievements and proceeding from it they deduce simple average quantity of the Index. It is used in the issues of special series of the reports but UNDP about human development. According to this study social development should be estimated not only by national income, but also by the achievements in the sphere of health and education which can be measured in most countries. Calculation of Human Development Index, which is done in almost all countries of the world, enables to identify the countries and regions with high, medium and low level of human development, highlight the problems appearing in the process of accumulation and usage of this human potential resource. In 2010 in Human Development Report the definition of the concept “human development” was significantly supplemented. In the opinion of the authors of this project, definition of human development as broadening opportunities of human choice is major but not sufficient. Human development means preserving positive results during the long period and resistance to the processes, which cause human oppression and strengthen structural injustice. That is why such principles as social justice, steadiness and respect for the individual have become the key ones.

Modern Ukrainian “Economic encyclopedia. In three volumes” [11] such a definition of human potential: “Human potential is the level of present personal capabilities, talent, level of education, qualification and their ability to give income”. World Bank also includes state of health and quality of food in this definition, UNO includes education, professional experience, physical state, ability to survive, and other features that provide human productivity and self-sufficiency. With development of human progress, workforce stops being only a factor of production. Investment into the workforce – in education, health protection, culture, qualification – create the new quality that is a new form of human wealth. Nobel Prize winner of 1976 M. Friedman includes “human capital” in the list of main forms of wealth (money, bonds, shares, material values). Usage of this category by many researchers can also be explained with the fact that “human capital” as well as any other capital is the result of investment and generates the flow of income during a particular period, that means it is created when people invests in themselves, getting education and qualification, and investments into “human capital” are bought as high-qualified and productive labour, high salary and psychic income from work”.

Therefore, the concept “human capital” is included into the concept “human potential” as in both cases they consider a person with some education, qualification, upbringing, motivational advantages etc. However, the concept of human potential relates more with economic

activity while the concept of human potential is wider due to its social and psychological component. Capital is realized potential. The level of realization depends on many reasons, including social and psychological, major of which is quality of state and social management.

Problems of human potential and human capital were explored by the economists V. S. Avtonomov, R. I. Kapelyushnikov, V. P. Schetinin, V. I. Martsinkevich, I. V. Sobolyeva, I. A. Maiburov, O. S. Vlasyuk, S. I. Pirozhkov, A. B. Doktorovich, T. I. Zaslavs'ka, D. P. Boginya, O. A. Grishnova, M. I. Dolishnii, S. M. Zlupko, J. I. Radetskii, Ye. M. Libanova, S. M. Zadorozhna, N. V. Simkina [1, 7, 8, 13] and many others.

Further we will examine in more detailed way some works of the authors, who distinguished the concepts of "human potential" and "human capital", put under question the dialectics of these concepts, explored their semantic meanings, specifics, similarities and differences, investigated development of human potential and problems of its transformation into human capital, so-called capitalization of human potential in different aspects.

M. I. Khromov [12] thinks, that economic categories "labour potential" and "labour capital" form human capital, under which he sees social-economic category characterizing the system of social relations on suitable, conscious and professional usage in the process of production and creation of new value in particular sphere of economic activity gained in natural way, formed and developed through investments, health, knowledge, skills, experience, motives, personal qualities and other productive abilities which are realized and accumulated in the person and belong to him/her on the rights of ownership, that favours increasing productivity of labour as well as income of the subjects of the process of using human capital and the person himself/herself and also it favours achieving the final aim of social development which is rising human welfare, social-economic development of the society and general human development.

O. A. Grishnova supposes that human capital is one of the elements of human potential which is realized in market economy [13].

As for O. V. Stefanyshyn and V. Pyts [14], O. A. Chorna [15], J. V. Derii [16], M. V. Nikolaichuk [17], T. A. Nepokupna and T. V. Brovko [18] and others, main criterion of distinguishing "human potential" and "human capital" is obtaining (or non-obtaining) income of any kind, that means that human potential is transformed into human capital only in case if its used for getting income. Realized (capitalized) human potential (or its element) is human capital.

According to T. V. Davidiuk, human capital is a realized part of labour potential (which in its turn in certain

circumstances – material and non-material contributions – is the derivative from human capital), as it expresses those personal qualities which in certain circumstances (time, motivation, work) either give income and realize in form of human capital or not [19].

A. B. Doktorovich distinguished aims of human potential development (long healthy and active life, non-stop education, gaining resources necessary for high level and quality of life) and human capital (increasing GDP and GRP, obtaining income, increasing labour efficiency) [20].

Under human potential, T. I. Zaslavs'ka sees the system of citizens' physical and spiritual strength, which can be used for achieving individual and social aims, both instrumental and existential including broadening potential of the person and opportunities for self-realization [20].

M. M. Abdusalamova thinks that human potential should be considered as human capital (in its real evaluation) plus social-economic conditions of its formation, development and usage. In other words, in the estimation of human potential it is necessary to consider economical aspect of investments into a person as well as the characteristics of social environment forming this person's personality, their value and preferences system, structure of interests, level of activity etc., along with quality of population life determined with such indicators as level of health protection, education, level of employment, welfare level, ecological situation, personal safety and rights [21].

O. V. Zakharova classified indicators of social-economic efficiency of investment into human capital [22]. She emphasizes on the necessity to create methodological basis of estimation of social-economic efficiency of investment into human capital to provide complex analysis of usage of human potential.

V. T. Smirnov, I. V. Soshnikov, F. B. Vlasov, I. V. Skoblyakova [6] mark out that necessary conditions of transforming human capabilities into capital, in other words, transforming human potential into human capital are: entering the business, productive usage; legal and factual regulation of relations between employer and employee (agreement, salary, social support and privileges); objective estimation (qualification, experience, rating, different systems of bonuses); non-stop obtaining knowledge, professional development and re-training of personnel; investments into human capital during all the life period.

Therefore, to conclude above mentioned, above common features of categories "human potential" and "human capital" it is possible to define:

1) Human potential and human capital both belong to a person and are inseparable of them,

2) Human capital is the part of human potential which is realized in market economy (capitalizes, brings

income) in the presence of motivation, time, labour (employment in economy), favourable social-economic situation etc.

3) Human potential and human capital can develop, stay at the same level or wear out that determines the extent of transformation of human potential into human capital.

Among the differences we can define the following:

1) Human potential is all the present human abilities, while human capital are the abilities realized by a person to get economic benefits;

2) Aim of development of human potential is good and quality life as well as social justice, while aim of development of human capital is getting material, moral, social and status effects, effects of social-economic, institutional development and support of functioning national economy;

3) Human capital is more analyzable in terms of value estimation than human potential, because human capital is a part of human potential realized with the aim of getting profit, so, to estimate human capital and its return it's possible to use present statistical information about certain economic indicators, while human potential as well as any other human abilities are impossible to estimate.

Conclusions and perspective of further research. On the modern stage the most wide-spread concept of labor economics is the concept "human capital" [23]. Human capital is an essential form of manifestation of human potential in the system of market relations. It is connected to getting income due to the efficiency of investment into human development, first of all professional qualities of their owner.

Human development is necessary for innovative development of the country, which in its turn provides conditions for comprehensive human development, activation of educational, research, physical, spiritual, psychological, creative potential, its realization and transformation into human capital.

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**Вакарчук Т. С. “Людський потенціал” та “людський капітал”: деякі спільні риси та відмінності**

У статті проаналізовано поняття “людський капітал” та “людський потенціал”, історичний розвиток та джерела виникнення зазначених понять. Досліджено проблему змістових значень понять “людський потенціал” та “людський капітал”, спираючись на наукові здобутки вчених. Визначено спільні риси та відмінності понять “людський потенціал” та “людський капітал”.

*Ключові слова:* людський капітал, людський потенціал, спільні риси та відмінності.

**Вакарчук Т. С. “Человеческий потенциал” и “человеческий капитал”: некоторые общие черты и отличия**

В статье проанализированы понятия “человеческий капитал” и “человеческий потенциал”, историческое развитие и истоки возникновения указанных понятий. Исследовано проблему содержательного значения понятий “человеческий потенциал” и “человеческий капитал”, основываясь на научных достижениях ученых. Определены общие черты и отличия понятий “человеческий потенциал” и “человеческий капитал”.

*Ключевые слова:* человеческий капитал, человеческий потенциал, общие черты и отличия.

**Vakarchuk T. S. “Human Potential” and “Human Capital”: Similarities and Differences**

The concepts “human potential” and “human capital” are analyzed as well as their historic development and sources of appearance of these concepts. The problem of semantic meaning of the concepts “human potential” and “human capital” is explored on the basis of researchers’ scientific achievements. Similarities and differences of the concepts “human potential” and “human capital” are defined.

*Key words:* human potential, human capital, similarities and differences.

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