

# Analysis on Situation of China's investment in human capital

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**Abstract-**Human capital is enterprises and even the whole country critical capital to gain a competitive advantage. At present, there is an obvious gap China's investment in human capital situation compared with the developed countries. Human capital investment is the key to the realization of China's sustainable development. This article from the related concept of human capital and investment, using a combination of theory and practice of research methods, in response to current problems in the area of human capital investment in China, analyze the hysteresis reasons of investment in human capital and propose specific and feasible constructive measures on this basis.

**Key words-** Human capital; Investment in human capital; Suggestions

## 1. Human Capital and Human Capital Investment

The first man takes human as capital economist is Adam Smith, Smith distinguishes four fixed capital in "The Wealth of Nations", The fourth is "a society for all the inhabitants or members have the useful ability"<sup>[1]</sup>. As the founder of the theory of human capital, Theodore Schultz gives a brilliant exposition on the concept of human capital. Schultz points out: people get the skills and knowledge. These skills and knowledge is a capital forms, this capital is largely a prudent investment results. Direct spending for education, health care, and aimed at obtaining a better way out of domestic migration is a clear example of the human capital<sup>[2]</sup>.

The investment is a very important economic concept, is to invest certain funds or resources of an undertaking with a view to future benefits or benefit activities<sup>[3]</sup>. Schultz believes that investment in human capital is also an investment. A lot of what we call consumer, is investment in human capital. Definition on the dictionary of economics is: Investment in human capital refers to, a country for economic development, investment in the cost of education and citizenship training<sup>[4]</sup>. Becker believe that investment in human capital is used to increase people's voluntary and affect its future monetary investment income and consumption<sup>[5]</sup>. This formulation has been widely recognized, and is still in use. Subsequently, Schultz further states that humans have five categories of economic value: Learning ability, the ability to complete meaningful work, a variety of cultural

and recreational activities, creativity and ability to cope with the non – equilibrium. In addition, Edward and Jacob Dennison discuss the human capital and human capital theory from different angles. In recent years, Lucas, von Roemer, Spencer, and others have further development of the human capital theory in varying degrees.

## 2. Current status and problems of China's human capital investment

Since the reform and opening up, especially since the socialist market economy, human capital has been evolving and growing in China and has many positive economic and social development, human capital becomes an important factor in promoting China's economic development. However, an overview of China's human capital development status, there are still many problems to be solved in investment and accumulation of human capital.

### 2.1. The issue of investment in education

Therefore, we must increase the intensity of investment in education. As can be seen from Table 1, the total amount of the investment in education shows a rising trend. In 2004, China's total education expenditure is 724.26 billion, by the end of 2008, the total expenditure on education funding reaches 1.45007 trillion, is more than 2 times in 2004<sup>[6]</sup>.

**Table 1.** 2004-2009 National Educational Funds ( Unit: 100 million )

yeas	2004	2005	2006	2007	2008	2009
total	7242.6	8418.8	9815.3	12148.1	14500.7	16502

Source: China Statistical Yearbook 2010

As can be seen from Table I, our level of investment in education is significantly lower, on the one hand, this will restrict China's rapid improvement in the quality of human capital, on the other hand, this will ultimately inhibit physical capital efficiency into full play and affect the growth of the national economy. In the formation of human capital, investment in education is the key, China's inadequate investment in education is the biggest problem, and GDP proportion of educational investment in China is only half as much as the world average, far behind the developed countries, talent becomes a bottleneck in the development of our economy. Therefore, to achieve the transformation of economic growth mode, education - based human capital development strategies must be implemented; we must increase investment in education.

States for primary, secondary and tertiary levels of education investment structure is not reasonable. In general, in the early stage of economic development, when vigorously popularize compulsory education, primary funds for compulsory education up, followed by secondary education, at least in higher education,

education investment structure renders pyramid shaped; With economic development, universal compulsory education level, into the stage of secondary education, thus the proportion of investment in secondary education is higher than in secondary education and in primary education. Education investment allocation structure becomes rhombic, distribution structure of two small middle, with the popularization of primary and secondary education, education development focus to the development of higher education, higher education in total education investment has risen. China is still in the primary stage of socialism, is the universal basic education or primary education stage, primary education investment should have a maximum. As can be seen from Table 2, China's overemphasis on investment in higher education causes primary investment serious low. Low proportion of government investment in basic education affects the speed of improvement of the quality of basic education and the popularization of compulsory education and also caused a serious shortage of investment in education for the majority of rural and backward areas.

**Table 2** 2008 China investment in tertiary education structure comparison

Education Category	The total amount of investment ( million )	School enrolment ( Million people )	Per capita investment (CNY)
Higher education	5396	2021	26700
Secondary education	4129	8811.6	4685
Primary education	3551	10331.5	3437

## 2.2. Problems of human capital flow and configuration

First, the flow of human capital in rural and urban.

With the development of reform and opening up and market mechanisms, the market mechanism gradually play an important role in the flow of labor . China's current human capital flows mainly rural to urban flow, while such flows are for the pursuit of their own interests and development, but when this action evolved into a social trend , forming a powerful force for change, will play an invaluable role on the establishment of urban and rural market economic system. However , the rural land reform and urban reform lags behind, farmers into the city hinder the further development of agricultural production, because the high quality talent flows to the cities, most farmers have lasted for generations of farming methods, not realizing the role great with advanced, Thus limiting the development of agriculture. Human capital in rural areas into the city is also caused the pressure of employment to the urban population, the country's employment pressure further exacerbated; cities are thus set up obstacles to the entry of the rural population.

Secondly, the flow of human capital at home and abroad. Under normal circumstances, the international migration of labor is mainly caused by the difference of

the unbalanced development of world economy and human capital. But in terms of global scope, lack of human capital in high-tech, in order to swing talent in many developed countries, spending a huge amount of costs and using various preferential policies, in order to achieve the entry of high-tech talent, so that a large number of outstanding talents going abroad. According to the Ministry of personnel statistics, since China's reform and opening up all kinds of personnel abroad reaches for a total of 270,000 people, only 90,000 go home for service, abroad total population accounted for only 1/3, thus affecting the development of China 's economy.

## 2.3. The low level of health care

China 's healthcare levels are significantly lower than in developed countries, frequent occurrence of " premature aging " or " untimely death " tragic , considerable portion of industrial workers, physical fitness generally poor, they are unable to adapt to the high-intensity , fast-paced work needs. For now, China's urban health condition is improving year by year, but vast rural health investment is still far from enough. According to the World Bank report, in 1998 1/4 of China's poorest rural population spent only 5% of the total health expenditure. A lot of the burden of infectious and parasitic diseases concentrates in poor and remote

areas. Children of families at or below the poverty line, about half of the people are suffering from mild malnutrition. Up to 90 % of poor children infect with chronic helminthiasis. The health status of rural and poor areas show the huge demand for health services ,these needs are more performance for basic public health needs. In order to changing this situation, we must increase fiscal spending of rural public health and preventive care. Weak financial resources of the central and western regions, the health financial expenditure of the eastern region in 2009 was 163.257 billion, the central region of the expenditure was 144.827 billion, the western region of the expenditure of 85.022 billion, health expenditure in the Western region is one-second of eastern standard. Central Government should increase support to the construction of public health system in the West.

### 3. China's investment in human capital suggestions

#### 3.1. To increase investment in education, deepen the reform of the education system

Investment in human capital is to share the fruits of economic growth; the stock of human capital in the future should be the source of a country's future prosperity impetus [8]. Only increase human capital investment, the rational allocation of resources of human capital investment, is to promote the preservation and appreciation of the human capital [9]. The government budget for education investment to GDP ratio continues to improve, adapting to the system of public finance and education finance system, strengthening the Government responsibility for education at all levels, ensure the gradual growth of the education funding. At the same time, deepening the reform of the education system, strengthening the "quality education ", changing the traditional examination-oriented education mode, education structure should adapt to the changes in the industrial structure. The high-level targets for the development of education in the future should continue to vigorously develop higher education, to train a large number of high-level innovative talents, to form a number of value-added ability of the stock of human capital; At the same time, we should vigorously promote the secondary vocational education. In addition, the configuration of the educational resources tilt highlights the underdeveloped central and western regions and rural areas , this is the key to reduce regional disparities in the future , the gap between urban and rural areas , cultivation the endogeneity of force in the economic growth of these disadvantaged areas .

#### 3.2. The establishment of a sound and unified labor market

We must remove as soon as possible binary segmentation of the labor market, and promote the free movement of labor. Some people worry that more open labor market will cause people are pouring into city, land without cultivation. But human capital theory tells us that even if it is open to the urban and rural labor migration,

still there are enough labor to stay in rural areas . At the same time, to stimulate the flow of human capital, we can carry out bold reforms in many aspects of the household registration system and introduction of talents policy.

#### 3.3. To implement the universal health scheme and raise physical fitness

To increase investment in public health care, reform the medical investment system, continue to improve the social security system reform, cultivate a healthy diet and healthy living habits for all major diseases and the establishment of a national system of monitoring, prevention, treatment, and so on. Through the implementation of the national health plan to maintain a population of working, for investment in human capital, it can play an equal role greater rate of human capital.

### 4. Conclusion

To sum up, through establishing long-term strategy of investment in human capital, after the joint efforts of the government, society and residents, it will occur such a virtuous circle in the future : universal appreciation of human capital has increased the general income of the residents, and then form the backbone of the growth in consumer demand ; To increase endogenous force in national economic growth, government, society , and residents will also have more human capital investment funds ; Further, when human capital rise again, consumer demand and economic growth are continuing to strengthen, followed by the circle. Of course, the long-term strategy of investment in human capital is not "at once ", the effect of its implementation is constrained by many factors, including the pressures of population growth and the dual economic structure . But in general, economic growth in itself is the improvement of the quality of the people , all-round development of the people, this is not only the cause of economic growth but also the ultimate goal of economic growth.

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### **Vitae**

Xiaoyun Sun was born in Hebei province, she obtained a bachelor degree in finance in Harbin University of Commerce. She spend most of time on studying and acquire basic knowledge. She has passed CET-6.