

UC Santa Cruz

UC Santa Cruz Journal of International Society and Culture

Title

Contextualizing Investment in People in Algeria: Human Capital vs Human Resources

Permalink

<https://escholarship.org/uc/item/9hk830mt>

Journal

UC Santa Cruz Journal of International Society and Culture, 1(2)

Author

Brownell, Francine

Publication Date

2020

DOI

10.5070/SC61249510

Copyright Information

Copyright 2020 by the author(s). This work is made available under the terms of a Creative Commons Attribution License, available at <https://creativecommons.org/licenses/by/4.0/>

Peer reviewed



CONTEXTUALIZING INVESTMENT IN PEOPLE IN ALGERIA: HUMAN CAPITAL VS HUMAN RESOURCES

FRANCINE BROWNELL

I. INTRODUCTION

Human capital is when governments invest in individuals in order to increase economic output. This can include increased investment in education or health care which would then increase people's job skills. Originally a post-WWII neoclassical economic theory, it developed into a neoliberal concept which emphasized that society was an actor and a "beneficiary of the development of individual skills."¹ It became a matter of public policy when neoclassical economic theory began to account for government spending during the shift from neoclassical economics to neoliberalism. Notably in the 1990s, the

European Union appropriated the idea when investment in human resources was mentioned in the Maastricht Treaty. This led to the creation of the Facility for Euro-Mediterranean Investment and Partnership (FEMIP) through the European Investment Bank (EIB) which included Algeria (as it is in the Mediterranean region). The idea of social and human investment had existed in Algeria since its war of independence in 1962, before the EU introduced its version to Algeria. The elites in the country believed that the masses must be educated in order to construct a modern national identity. However, Algeria would move away from

¹ Serres, Thomas Ordoliberalism beyond Borders: The EU and Algeria's Human Capital. SSRN Scholarly Paper, ID 2832776, Social Science Research Network, 1 Aug. 2016. Papers.ssrn.com, <https://papers.ssrn.com/abstract=2832776>, 2. For clarity, neoclassical economics is an economic theory which focuses on supply and demand as the driving forces of the economy. Neoclassical economists believe that consumers operate rationally, making decisions based on what will give them the highest satisfaction. Becker, who invented the concept of human capital, created an understanding of it based on individual rationality, a neoclassical concept. Neoliberalism is the focus on the free market, and built upon the economic ideas of its precursor: neoclassical economics.

FRANCINE BROWNELL is a 2019 graduate of UCSC, and is pursuing a joint masters degree in Global Economic Governance and Public Affairs at the LUISS Guido Carli School of Government and the Centre International de Formation Européenne. She has professional experience in international economic development at the global level, as well as economic development at the local level. She would like to thank JISC editors Aarushi Saharan, Nick San Augustin, and Casey Wu for their thoughtful comments, suggestions, and encouragement. She can be reached at francine.brownell@gmail.com.

the socialist idea of educating everyone for nationalist purposes and toward the use of the neoliberal concept of “human capital”, or investing in people for economic profit.

Nowadays, the question of economic reform in Algeria is complicated. Some state elites are trying to preserve centralized governmentality through economic reform while crony capitalists are trying to intervene in the decision-making process to further their own interests.² These two efforts contradict one another. As part of economic reform, there have been investments in human capital. However, human capital theory only applies to formal employees, rather than informal ones.³ Additionally, human capital affects institutional and demographic factors which only partly explain the high level of unemployment in Algeria.⁴ This shows the limits of applying human capital theory in this context.

I will explore the history of the shift from human resources to human capital and the implementation of human capital theory in Algeria. I will show how the neoliberal theory of human capital conceptualizes the individual as an economic actor while the term human resources refers to a similar concept but is lacking neoliberal connotation and does not reduce the identity of the individual to an economic actor. Basically I will highlight the flaws of human capital theory by demonstrating that while human capital limits the conceptualisation of citizens to people who exist simply to create profit for the state, human resources conceptualizes people as more than simply

economic actors.

II. HUMAN CAPITAL THEORY AND THE EUROPEAN UNION

Gary Becker created human capital theory in the United States in 1964, it then evolved into public policy in the 1980s, and shortly thereafter, the European Union incorporated it into their founding treaties. The theory essentially says that capital is not limited to stocks, bonds, or bank accounts which yield income over time. Human capital includes durable capital which cannot be separated from people, such as knowledge, skills or health. In fact, education, training and health are “the most important investments in human capital” because they “increase earnings, improve health or add to a person’s good habits over much of his lifetime.”⁵ Human capital is important in modern economies because productivity is dependent on the skills of the workers and their earnings are often determined by knowledge.⁶ Becker further stipulates that most knowledge is the result of investment because to acquire it, you or your parents must invest time and money that could otherwise be spent elsewhere. This investment pays off because “the earnings of more-educated people are almost always well above average.”⁷ While human capital is similar to other forms of capital because it is durable and depreciates, it cannot be bought, sold, or used as collateral. Additionally, some forms of human capital are complementary. For

² Ibid.

³ Philippe Adair and Bellache Jugurta, “Labor market segmentation and occupational mobility in Algeria: Repeated cross-sectional and longitudinal analyses (2007 to 2012),” *Review of Development Economics* (2018).

⁴ Thomas Serres, *Marché du Travail, Régulation et Croissance Economique en Algérie* Karima Dirèche (ed), L’Algérie au présent (Paris: Karthala, 2019).

⁵ Gary Becker, “Human Capital,” Econlib, www.econlib.org/library/Enc/HumanCapital.html.

⁶ The University of Chicago and Gary Becker, “Human Capital and Intergenerational Mobility - Introduction,” YouTube, January 6, 2011, www.youtube.com/watch?v=QajILZ3S2RE&list=PL9334868E7A821E2A.

⁷ Becker, “Human Capital.”

example, improved health incentivizes you to invest in your education and investing in education incentivizes you to invest in your health, because you will likely be educated enough to know about the benefits of a healthy lifestyle.⁸

Becker's theory also has empirical evidence to support its use in forming public policy. Economics Professors Jeroen Klomp and Jakob de Haan found that government instability has a negative correlation with advanced human capital, governance correlates positively with advanced human capital and regime instability correlates negatively with basic human capital.⁹ This shows that there is a relationship between human capital and governmental stability. However, this does not conclusively prove a causal relationship between human capital and the stability of governmental regimes. This theory began to impact public policy when government spending was incorporated into the discourse around the political economy. If a state wanted to use this theory to increase its output, it would invest in human capital, such as education, health and/or training which would then theoretically increase the earnings of its population and thus its output. This was incorporated into international economic policy through the Washington Consensus approach to development; an approach that was based on human capital. It became neoliberal by focusing on individual responsibility and entrepreneurial behavior, thus enabling the individual to become part of the world market.¹⁰ This is neoliberal because it focuses on the market. This neoliberal application of

Becker's theory spread to Europe as a way to shape the newly-formed EU, and then to the neighboring Mediterranean region. Europeans used it in development work, especially investment, which is why it spread across the Mediterranean.

The founders of the European Union were trying to create an integrated common market across the continent and used the theory of human capital to help achieve their goals. One of the founding treaties of the European Union, the Maastricht Treaty also known as the Treaty of the European Union (TEU), mentions investing in human resources to shape the supranational entity.¹¹ The European Investment Bank, an arm of the EU which works on development inside and outside Europe, applies human capital by financing education and health projects in the EU. This work led to the creation of the Facility for Euro-Mediterranean Investment and Partnership (FEMIP) and investment in health and education outside of Europe.¹² This shows how the theory spread from the US to Europe and North Africa which borders the Mediterranean.

Liberal economists herald the theory of human capital as a progressive, positive step towards making the discipline of economics more people-centric. The EU also values Becker's theory as evidenced by their implementation of the theory to further their own objectives. However, there are many critiques of how public policy focuses on human capital to further economic development. For one, it commodifies labor-power and reduces the individual to a quantifiable human resource.¹³ This conceptualizes people as economic actors

⁸ Ibid.

⁹ Jeroen Klomp and Jakob De Haan, "Political Regime and Human Capital: A Cross-Country Analysis," *Social Indicators Research* 111, no. 1 (2013): 45-73.

¹⁰ Serres, *Ordoliberalism beyond borders*, 2.

¹¹ Ibid, 3.

¹² Ibid, 3.

¹³ Ibid, 2.

rather than as complex beings who do more than earn money and contribute to their country's gross domestic product. Post-development approaches include human capital and some economists critique them for presenting development economics as a set of technologies of power that objectify "target countries and [subject] individuals to a techno-economic rational."¹⁴ This argument builds on the point that human capital in public policy furthers the concept of the individual as a "cog" in the socio-economic machine. In the context of the Mediterranean, the "focus on human capital also expresses a desire to manage flows of labor-force, as migration is understood as an investment both for the individuals, the private sector and the authorities."¹⁵ This focus goes to show that the EU applies human capital theory to its international development policy in order to further its objectives, and exert a certain level of control in the region. Not only does the EU further the misconception that people are economic actors existing only to generate income and GDP, but they implement a neoliberal theory in other countries, namely Algeria.

III. HUMAN RESOURCES IN ALGERIA

Before the creation of the European Economic Community in the 1990s, and before Becker drafted his theory of human capital in 1964, the concept of investing in people existed in Algeria after they gained independence from France in 1962. The elite believed the masses must be educated in order to construct a modern national identity, which was their goal.¹⁶ This was

called human development and used to "bolster the socialist orientation of the Revolution" through economic reforms which sought to create modern consumers through a centralized governmentality.¹⁷ This shows that the elite focused on increasing the quality of life of their population without reducing their identity to consumers and producers. However, since the late 1980s Algeria has shifted away from socialism and Algerian officials now use the framework of human capital due to the spread of neoliberalism.¹⁸ In fact, in 2003 the Algerian Minister of Investment quoted Gary Becker at a United Nations conference.¹⁹ When it comes to the question of economic reform, some state elites are trying to preserve centralized governmentality while crony capitalists are trying to intervene in the decision-making process. This shows the contradictory agendas and the contentiousness of human capital theory, which is even more reason why it is a more flawed concept than human resources.

The transition from human resources to human capital was heavily influenced by the EU, and thus did not happen entirely within Algeria. Politics professor, Thomas Serres posits: "European interventions encouraged the transformation of Algerian governmentality...By governmentality, we refer to a fragmented form of power that targets the population and relies on political economy and security technologies."²⁰ There is an Association Agreement between Algeria and the EU which was signed in 2002 so the Algerian government could implement programs which would

¹⁴ Ibid, 2.

¹⁵ Ibid, 3.

¹⁶ Ibid, 4.

¹⁷ Ibid.

¹⁸ Ibid.

¹⁹ Ibid.

²⁰ Ibid, 1.

transform “the local population, employees and civil servants to fit the needs of a modern economy.”²¹ This goes to show how the concept of human capital is not only neoliberal but Western. Within Algeria, when the term “human resources” is used, the resource is linked to a territory and thus could become a vector of sovereignty.²² This usage of the term is a subtle way in which Algeria attempts to resist the neoliberal, Western framework of human capital. In 2017, the Prime Minister Abdelmajid Tebboune called to bring back human resources, allowing a transformation that was not only economic but also social. This is seen in his investment in the education sector and improving the link between universities and businesses. However, this effort is difficult because of the structural adjustment programs of the 1990s which included heavy budget cuts for public services including the education system.²³ This shows the contradictions in neoliberal theory, more specifically how neoliberal actors want Algeria to invest in human capital to resolve the issues they caused through the SAPs in the 1990s. These issues negatively impacted human capital as the budget cuts led to underfunded education programs.

The government’s investment in human capital in Algeria should not only increase individual’s incomes, but also their competitiveness on the market since it boosts their skills. This investment is also part of the effects of the demographic transition in Algeria between 1950 and 1980.²⁴ The transition is one from a profile

of high fertility and high mortality, to one where mortality, birth, and fertility rates are low. During the transition, there were high birth rates and low death rates at one point, which is why there was an investment made to increase incomes, since the job market got more competitive. The specific applications and their effects were designed to improve Algeria’s socioeconomic sphere. Again, this goes to show the flaws of human capital as a concept, specifically how it narrows the concept of people to economic actors who should only be invested in in order to generate income for the state.

IV. HUMAN CAPITAL THEORY APPLICATIONS IN ALGERIA

The elite in Algeria implemented many economic reforms which invested in education, training and health care. These were taken in tandem with the EU through their Framework of Actions on job creation, employability of human capital and decent employment which was adopted at the first Euro-Mediterranean Conference of Minister of Labour and Employment in 2008.²⁵ These policies were able to be implemented without feeling any effects from the Arab Spring, though the government decided “to improve young people’s access to the labor market.”²⁶ The Algerian government has also received help from various UN and international organizations to combat unemployment since the Arab Spring.²⁷ However, the effects of investments in human capital are only felt in the formal

²¹ Ibid.

²² Serres, *La Réforme du Marché du Travail entre Néoliberalisme et heritage tiers-mondiste*, 4.

²³ Ibid.

²⁴ Kamel Kateb, “Transition démographique en Algérie et marché du travail.” *Confluences Méditerranée* 1, no. 72 (2010): 155-172.

²⁵ Mohamed Saib Musette, “Employment Policies and Active Labour Market Programmes in Algeria,” ETF, 2.

²⁶ Ibid, 5.

²⁷ Ibid, 5.

sector, as shown by Adair and Bellache. They identified determinants and patterns of occupational mobility across the formal/informal divide and within the informal sector. They found that the segmentation in the labor market is not reducible to earnings functions.²⁸ Additionally, informal employment can grow while there is a weak private sector when there is an increase in the working age population and increased participation of women in the labor market.²⁹ There is a “rising trend in informal employment” which means that those who are employed informally do not have social protections such as social security.³⁰ When it comes to job mobility, “individuals with a prior job are less likely to find another job, especially in the formal sector.”³¹ Also, “the wage gap between formal and informal employees is not only due to human capital.”³² In sum, “human capital theory applies to formal employees rather than informal ones.”³³ This shows how investing in human capital did not pay off the way the Algerian elites probably intended.

Within Algeria, there are high levels of unemployment and implementing policies to invest in human capital is thought to lower unemployment because it will increase individuals’ job skills. However, Rafik Boukalia-Hassane and Fatiha Talahite found that institutional and demographic factors only partly explain the level of unemployment in Algeria.³⁴ Since human capital affects demographic factors, it does not entirely affect the unemployment rate, so investing in it would not necessarily lower

unemployment unless the government also implemented strategies to affect other parts of the economy which affect unemployment.

V. CONCLUSION AND QUESTIONS FOR FUTURE RESEARCH

In conclusion, while Gary Becker’s theory and its application are often framed as positive, and do have some good qualities, they are tools used by neoliberals to further their agenda and minimize humans as just cogs in the economic machine. While a similar theory existed in socialist Algeria before Becker published his ideas, it did not look at people with a purely economic lens. This theory is referred to as human resources and is arguably used as a form of resistance against Western influence in Algeria.

The difference between human capital and human resources is not just economic and political but also linguistic. A possible area of future study is to look at the context when people use each term in Algeria and look into why exactly there is a difference. The fact that elites use the term human capital when talking with other elites in French and/or English, but use the term human resources when talking to their population could be significant. It would show how the issue is framed. Another possible area of study is to look at how the unrest in Algeria surrounding political change will impact the implementation of economic development policies including human capital. Do Algerian revolutionaries

²⁸ Adair and Jugurta, “Labor market segmentation and occupational mobility in Algeria: Repeated cross-sectional and longitudinal analyses (2007 to 2012),” 1766.

²⁹ Ibid, 1766.

³⁰ Ibid, 1766.

³¹ Ibid, 1777.

³² Ibid, 1781.

³³ Ibid, 1765.

³⁴ Rafik Boukalia-Hassane, Fatiha Talahite, “Marché du travail, régulation et croissance économique en Algérie,” *Revue Tiers Monde* 2, no. 194 (2008): 413-437.

use the term human capital, and if they do, do they use it in all languages spoken in Algeria or just in French and English? Another area of research is to see if conceptualizing people as actors in the economy in the eyes of the elites contributes to the dehumanization of the population, since it limits human identity to purely economic, and we are much more than just cogs in the economic machine. Overall, future research can go in many different directions when it comes to human capital and human resources.