

**INDIAN SCHOOL MUSCAT**  
**DEPARTMENT OF COMMERCE AND HUMANITIES**  
**INDIAN ECONOMIC DEVELOPMENT**  
**CLASS - XII**  
**CHAPTER 5: HUMAN CAPITAL FORMATION IN INDIA**

### **INTRODUCTION**

We know that the labour skill of an educated person is more than that of an uneducated person and hence the former is able to generate more income than the latter and his contribution to economic growth is, consequently, more.

Education is sought not only as it confers higher earning capacity on people but also for its other highly valued benefits: it gives one a better social standing and pride; it enables one to make better choices in life; it provides knowledge to understand the changes taking place in society; it also stimulates innovations. The availability of educated labour force facilitates adaptation of new technologies.

### **WHAT IS HUMAN CAPITAL?**

Human capital means to turn human resources like students into human capital like engineers and doctors.

To understand what human capital means, it is necessary to understand the following:

- (i) What are the sources of human capital?
- (ii) Is there any relation between human capital and economic growth of a country?
- (iii) Is the formation of human capital linked to man's all-round development or, as it is now called, human development?
- (iv) What role can the government play in human capital formation in India?

### **SOURCES OF HUMAN CAPITAL**

Investment in education is considered as one of the main sources of human capital.

Other sources of human capital formation are

- Investments in health
- On- the job training
- Migration and
- Information

### **EDUCATION**

Spending on education by individuals is similar to spending on capital goods by companies with the objective of increasing future profits over a period of time. Individuals invest in education with the objective of increasing their future income.

## **HEALTH**

Health is also considered as an important input for the development of a nation because healthy people can work better than a sick person. A sick labourer without access to medical facilities will be absent from work and there is loss of productivity. Hence, expenditure on health is an important source of human capital formation.

Preventive medicine (vaccination), curative medicine (medical intervention during illness), social medicine (spread of health literacy) and provision of clean drinking water and good sanitation are the various forms of health expenditures.

Health expenditure directly increases the supply of healthy labour force and is, thus, a source of human capital formation.

## **ON THE JOB TRAINING**

- Firms spend on giving on-the-job-training to their workers.
- Workers may be trained in the firm itself under the supervision of a skilled worker or the workers may be sent for off-campus training.
- On-the-job training help firms to benefits from enhanced productivity because of the training. Expenditure regarding on-the-job training is a source of human capital formation because enhanced labour productivity is more than the cost of training.

## **MIGRATION**

- People migrate in search of jobs that fetch them higher salaries than what they may get in their native places.
- Unemployment is the reason for the rural-urban migration in India.
- Technically qualified persons, like engineers and doctors, migrate to other countries because of higher salaries that they may get in such countries.
- Migration in both these cases involves cost of transport, higher cost of living in the migrated places and high social status.
- The enhanced earnings in the new place is more than the costs of migration; hence, expenditure on migration is also a source of human capital formation.

## **INFORMATION**

- People spend to acquire information relating to the labour market and other markets.
- People want to know the level of salaries associated with various types of jobs, whether the educational institutions provide the right type of employable skills and at what cost.
- This information is necessary to make decisions regarding investments in human capital
- Expenditure on getting information relating to the labour market and other markets is also a source of human capital formation.

## **HUMAN CAPITAL AND ECONOMIC GROWTH**

- The labour skill of an educated person is more than that of an uneducated person and skilled labour generates more.

- Economic growth means the increase in real national income of a country and the contribution of the educated and healthy person to economic growth is more than that of an illiterate person.
- This enhanced productivity of human beings contributes significantly towards increasing labour productivity and also brings in innovations and creates ability to absorb new technologies.
- Education provides knowledge to facilitate inventions and innovations.
- Education is measured in terms of years of schooling, teacher-pupil ratio and enrolment rates may not reflect the quality of education.
- Health services measured in monetary terms, life expectancy and mortality rates.
- Improvement in education and health sectors and growth in real per capita income in both developing and developed countries shows the measures of human capital. These are reasons to believe that human capital and economic growth flows in either directions. That is, higher income causes building of high level of human capital and vice versa.

### **HUMAN CAPITAL – INDIA**

- India recognised the importance of human capital in economic growth long ago. With reference to India it states, between 2005 and 2020 India expects a 40 percent rise in the average years of education in India.
- Two independent reports on the Indian economy have identified that India would grow faster due to its strength in human capital formation.
- World Bank, in its recent report, 'India and the Knowledge Economy -Leveraging Strengths and Opportunities', states that India should make a transition to the knowledge economy and if it uses its knowledge as much as Ireland does then the per capita income of India will increase from little over \$1000 per person to \$3000 per person by 2020.
- Deutsche Bank, a German bank, in its report on 'Global Growth Centre's (published on 1.7.05) identified that India will emerge as one among four growth centre's in the world by 2020. It further states that the Indian economy has all the key ingredients for making this transition, such as, mass of skilled workers, a well-functioning democracy and a diversified science and technology infrastructure.

### **HUMAN CAPITAL AND HUMAN DEVELOPMENT**

<b>HUMAN CAPITAL</b>	<b>HUMAN DEVELOPMENT</b>
Human capital treats human beings as a means to an end; the end being the increase in productivity. Any investment in education and health is unproductive if it does not enhance output of goods and services.	Human development is based on the idea that education and health are integral to human well-being. When people have the ability to read and write and the ability to lead a long and healthy life, they will be able to make other choices which they value.
In human capital basic education and basic health are important in themselves irrespective	In the human development perspective, human beings are ends in themselves. Human

of their contribution to labour productivity.	welfare should be increased through investments in education and health
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## **HUMAN CAPITAL FORMATION IN INDIA: GREAT PROSPECTS**

- The Constitution of India mentions the functions to be carried out by each level of government. Accordingly, expenditures on both education and health are to be carried out simultaneously by all the three tiers of the government.
- Education and health care services create both private and social benefits and this is the reason for the existence of both private and public institutions in the education and health service markets.
- The role of government in this situation is to ensure that the private providers of these services adhere to the standards stipulated by the government and charge the correct price.
- The ministries of education at the union and state level, departments of education and various organisations like National Council of Educational Research and Training (NCERT), University Grants Commission (UGC) and All India Council of Technical Education (AICTE) regulate the education sector.
- The ministries of health at the union and state level, departments of health and various organisations like Indian Council for Medical Research (ICMR) regulate the health sector.
- Basic education and health care is considered as a right of the citizens and the government provides education and health services free of cost for the deserving citizens and the poor people.
- Both, the union and state governments have the objective of attaining cent per cent literacy and considerably increase the average educational attainment of Indians.

## **EDUCATION SECTOR IN INDIA**

Growth in Government Expenditure on Education:

This expenditure by the government is expressed in two ways

- (i) as a percentage of 'total government expenditure': It indicates the importance of education in the scheme of things before the government
  - (ii) As a percentage of Gross Domestic Product (GDP). Percentage of 'education expenditure of GDP' expresses how much of our income is being committed to the development of education in the country.
- During 1952-2002, education expenditure as percentage of total government expenditure increased from 7.92% to 13.17% and as percentage of GDP increased from 0.64% to 4.02%.
  - If we include the private expenditure incurred by individuals and by philanthropic institutions, the total education expenditure should be much higher.
  - Elementary education takes a major share of total education expenditure and the share of the higher/tertiary education (institutions of higher learning like colleges, polytechnics and universities) is the least.

- The per person education expenditure differs considerably across states from as high as Rs 3,440 in Lakshadweep to as low as Rs 386 in Bihar.
- In December 2002, the Government of India, through the 86th Amendment of the Constitution of India, made free and compulsory education a fundamental right of all children in the age group of 6-14 years.
- The Tapas Majumdar Committee, appointed by the Government of India in 1998, estimated an expenditure of around Rs 1.37 lakh crore over 10 years (1998-99 to 2006-07) to bring all Indian children in the age group of 6-14 years under the purview of school education.
- The current level of a little over 4 per cent has been quite inadequate. In principle, a goal of 6 per cent needs to be reached-this has been accepted as a must for the coming years.
- In the Union Budget 2000-05, the Government of India levied a 2 per cent 'education cess' on all union taxes.

## **EDUCATIONAL ACHIEVEMENTS IN INDIA**

Generally, educational achievements in a country are indicated in terms of adult literacy level, primary education completion rate and youth literacy rate.

## **FUTURE PROSPECTS**

### **Education for All - Still a Distant Dream:**

- Though literacy rates for both - adults as well as youth - have increased, still the absolute number of illiterates in India is as much as India's population was at the time of independence.
- In 1950, the Constitution said that the government should provide free and compulsory education for all children up to the age of 14 years within 10 years. Had we achieved this, we would have cent per cent literacy by now.

### **Gender Equity - Better than Before**

- The differences in literacy rates between males and females are narrowing
- India is ahead of other developing countries in improving economic independence and social status of women
- India understands that women education makes a favourable impact on fertility rate and health care of women and children.

### **Higher Education - a Few Takers:**

- Lesser number of people is reaching the higher education level.
- The level of unemployment among educated youth is the highest.
- The government should increase allocation for higher education and also improve the standard of higher education institutions.

## **CONCLUSION**

The economic and social benefits of human capital formation and human development are well known. The spread of education and health services across different sectors of society

should be ensured so as to simultaneously attain economic growth and equity. India has a rich stock of scientific and technical manpower in the world. The need of the hour is to better it qualitatively and provide such conditions so that they are utilised in our own country.

## EXERCISES

1. What are the two major sources of human capital in a country?
2. What are the indicators of educational achievement in a country?
3. Distinguish between human capital and human development.
4. What factors contribute to human capital formation?
5. Mention two government organisations each that regulate the health and education sectors.
6. Education is considered an important input for the development of a nation. How?
7. Discuss the following as sources of human capital formation
  - a) Health infrastructure
  - b) Expenditure on migration.
8. How does investment in human capital contribute to growth?
9. Examine the role of education in the economic development of a nation.
10. Show the relationship between human capital and economic growth.
11. Discuss the need for promoting women's education in India.
12. What are the main problems of human capital formation in India?