

HUMAN CAPITAL FORMATION IN INDIA

Human Resource

Human Resource refers to abilities (Skill and Experience) of human beings to contribute to the process of value- addition in the economy.



THE ECONOMICS GURU

EDUCATION | INSPIRATION | KNOWLEDGE

अर्थशास्त्र के सभी विषयों एवं कक्षाओं के नोट्स, प्रश्नोत्तर, सैंपल पेपर, वस्तुनिष्ठ प्रश्न, विगत वर्षों के प्रश्नपत्र, अभ्यास प्रश्नपत्र (हिंदी या अंग्रेजी माध्यम) के PDF आपको www.theeconomicsguru.com पर मिल जायेंगे।

इसके साथ ही सभी हिंदी माध्यम तथा अंग्रेजी माध्यम के छात्रों के लिए Free **LIVE CLASS** भी उपलब्ध है, हमारे **YOUTUBE CHANNEL "THE ECONOMICS GURU"** पर। अभी **subscribe** कर लीजिये और ज्यादा से ज्यादा **शेयर** कर दीजिये अपने दोस्तों के बीच। किसी भी प्रकार की समस्या के लिए आप हमसे सम्पर्क कर सकते हैं, YOUTUBE के कमेंट बॉक्स में कमेंट करें या वेबसाइट के Email वाले Option में जाकर **Email** करे या WhatsApp कर सकते हैं Website में लिंक दिया गया है।

धन्यवाद

नकुल ढाली (The Economics Guru)

CBSE, UK Board, UP Board, Bihar Board, MP Board, CG Board, Rajasthan Board, Haryana Board

साथ ही **BA; B.COM; MA** के सभी **SEMESTER** लिए भी अध्ययन सामग्री उपलब्ध है।



अभी VISIT करें

www.theeconomicsguru.com

Subscribe my **YOUTUBE** channel **THE ECONOMICS GURU**



Follow me:

Facebook- *Nakul Dhalli*

Instagram- *@theeconomicsguru*

PHYSICAL CAPITAL AND HUMAN CAPITAL

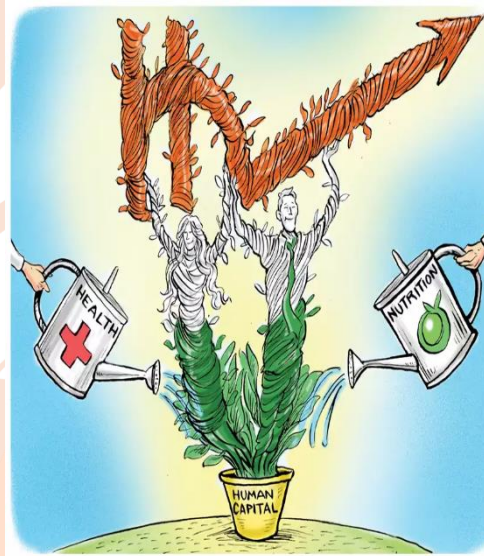
Physical Capital

It includes all those resources which are required for further production, like plant and machinery, factory buildings, equipment's etc.



Human Capital

It refers to the stock of skill, ability, expertise, education and knowledge in a nation at a given point of time.



The stock of physical capital is essential in the process of economic growth of a country. If there is low investment in human capital, utilisation of physical capital will be at low pace, leading to low level of economic growth.

Comparison between Physical Capital and Human Capital

Physical Capital	Human Capital
It is used to produce goods and services	It increases the efficiency to produce goods and services.
Physical capital is sold in the market	It is not sold, only the services of human capital are sold
It depreciates over time due to continuous use or There is no depreciation of human capital, due to change in the pattern of demand	There is no depreciation of human capital, however depreciation may occur with ageing hence investments in human capital are required to maintain its efficiency.
Physical capital (like machinery) is separable Human capital (skills, efficiency) cannot be from its principal	Human capital (skills, efficiency) cannot be separated from the principal.
Formation of physical capital is an economic and Formation of human capital is partly a social process and partly a conscious effort of the technical process	Formation of human capital is partly a social process and partly a conscious effort of the possessor of the human capital.

THE ECONOMICS GURU
EDUCATION | INSPIRATION | KNOWLEDGE

HUMAN CAPITAL FORMATION

Additions to the stock of abilities and skills among the population

Human capital formation is the process of acquiring and increasing the number of persons, who have the skills and expertise, which are important for the economic, social and political development of the country.

Prof. G.M. Meier, “Human capital formation is the process of acquiring and increasing the number of persons, who have skills, education and experience, which are critical for economic and political development of a country.”



Sources of Human Capital Formation

Expenditure on Education

- Education **increases efficiency and skill** of human capital.
- 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 as **education enhances mental horizon** of human resources.
- Education resulting in **higher earning capacity** (income)

Expenditure on Health

- Expenditure on health is important in having **a productive labour force**.
- Health expenditure directly **increases the physical and mental ability of human beings** and produces healthy labour force.
- Expenditure on health is needed in the following areas:
 - Preventive medicine (vaccination)
 - Curative medicine (medical intervention during illness)
 - Social Medicine (spread of health literacy)
 - Provision of clean drinking water supply
 - Good sanitation facilities

On-the-Job Training

On-the-job enhance the skills and expertise of human capital in order to increase productivity of workers.

- Workers may be trained in the firm itself by a skilled worker.
- Workers may be sent for off campus training.

Expenditure on Migration

Migration is the process of moving one place to another place

- People migrate in search of jobs or higher salaries.
- Unemployed people from rural areas migrate to urban areas in search of jobs.
- Technically qualified persons like engineers, doctors, etc. migrate to other countries because of higher salaries

Migration of people involves **cost of transportation** and higher **cost of living** in the migrated places.

Expenditure on migration is also considered as a source of human capital formation as the increased earnings outweigh the cost of migration

EDUCATION | INSPIRATION | KNOWLEDGE

Expenditure on information

- People want to know, the levels 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 as well as for efficient utilisation of the acquired human capital stock.
- Expenditure incurred for acquiring information relating to the labour market and other markets is also a source of human capital formation.

Study Programme for Adults

Government and other NGOs organise the adult education programmes to make them proficient in their work and also enhance the skills.

THE ECONOMICS GURU

EDUCATION | INSPIRATION | KNOWLEDGE

Human Capital and Economic Growth (importance of Human Capital Formation)

The important vital role of human capital formation in economic growth will be clear from the following points:

1. Enhancement of productivity of human capital

- Human capital formation raises the productivity and production as skilled and efficient workers make better use of the given resources,
- Technical skill can be acquired only by means of education, training and sound health of the people.
- Investment in human capital produces such skills and expertise which increase their productivity which is essential for economic growth.

2. Efficient use of physical capital

- Physical capital formation depends extensively on the human capital formation.
- The physical capital can be utilised effectively only by skilled and intelligent work of human capital in the economy
- Thus, human capital formation raises productivity of physical capital which is desired for economic growth.

EDUCATION | INSPIRATION | KNOWLEDGE

3. Innovations and technological improvement

- Technological upgradation is important for structural changes. The human capital formation not only increases the productivity of human resources but also stimulates innovations and creates ability to absorb new technologies.
- Education provides knowledge to understand changes in society and scientific advancements, thus facilitate inventions and innovations.
- The availability of educated labour force facilitates adaption to new technologies.

4. Key role in development strategy

- Economic growth implies increase in national income of a country which is possible only if its human capital is efficient.
- The **seventh five-year** plan says, “Human resources development (read human capital) has necessarily to be assigned a key role in any development strategy particularly in a country with a large population”.

5. Improvement in quality of life

- The quality of life improves due to quality education, health and skill formation.
- Human capital formation enables them to enjoy a higher standard of living as they are able to generate better remuneration for them and for the nation.

6. Positive change in attitude

- Investment in human capital makes people more knowledgeable, skilled and modern in their thoughts and actions,
- It increases their outlook and attitude towards various aspects such as traditions, job markets, mobility etc. which are helpful in development of the country
- They are able to make rational choices in respect of job opportunities. It leads to emergence of modern society desired for economic development.

Problems Facing Human Capital

These are as follows:

1. High growth rate of population

- Continuous rise in population has adversely affected the quality of human capital. It has reduced per capita availability of benefits of economic growth. Benefits of economic growth relating to housing, hospitals, education etc. have reduced due to rising population.
- Rapidly rising population lowers the capacity to possess skill and expertise required for economic growth

2. Migration

- Loss of resources in terms of **“Brain Drain”** is a serious outcome of migration when educated and skilled manpower moves to the other countries to work.
- The country like ours cannot afford migration of persons of high calibre and possessing high quality education who choose to render their services abroad.

3. Lack of proper manpower planning

- In India, there exists imbalance between the demand for and supply of human resources required for different categories of work.
- In India, there is poor manpower planning which corresponds to wastage of scarce resources of the nation.
- We require a proper system of manpower planning so that there may be equilibrium determined between demand and supply of human resources.

4. Low level of Academic Standards

- Educational facilities in India have not developed as required for economic growth.

- There is mismatch between the requirement of skills and available academic standards. The result of this is that skills, training and expertise obtained by human capital is insufficient to meet the desired standards of economic growth.

5. Inefficient system

There are widespread inefficiencies in:

- Arranging on-the-job and off-the-job training programmes for human capital
- Utilising scarce resources efficiently because of lack of human resource development
- Eradicating widespread poverty, illiteracy and unemployment,

6. Poverty

- There is widespread poverty in India creating lack of finances and awareness a major problem facing human capital formation.
- A large proportion of population do not have access to basic health and educational facilities.

- Due to their inability to get higher education and maintaining a reasonable standard of health, they are not able to develop themselves as sound human capital.

Difference Between Human Capital and Human Development

Human Capital	Human Development
Human capital considers education and health as a means to increase labour productivity.	Human development is based on the idea that education and health are integral to human wellbeing.
Human capital treats human beings as a means to an end, the end being the increase in productivity.	In the human development perspective, human beings are ends in themselves. Human welfare should be increased through investments in education and health.
Investment in education and health is unproductive if it does not lead to rise in production of goods and services.	Investment in education and health is productive, even if it does not lead to rise in production of goods and services, as every individual has a right to be literate and lead a healthy life. Basic health and basic education are important in themselves.

EDUCATION SECTOR IN INDIA

Education implies the process of learning at three levels, viz., primary, secondary and higher levels of education.

Literacy just refers to the ability to read and write, whereas education is the process of gaining knowledge and developing necessary skills to participate in the growth process of the country.

Importance of Education

Education is very important for the development of human capital and the nation.

- Education produces responsible citizen.
- It develops Science and Technology.
- It facilitates use of natural and human resources of all regions of the country.
- It expands mental horizon of the people.
- It helps economic development through greater participation of the people in the process of growth and development.
- It promotes cultural standard of the citizen.
- It develops human personality.

Growth in Government Expenditure on Education

The expenditure by the government on education is expressed in two ways:

- (i) as a percentage of total government expenditure
- (ii) as a percentage of Gross Domestic Product (GDP).

- The percentage of '**education expenditure of total government expenditure**' indicates the importance given to education in government plans.
- The percentage of '**education expenditure of GDP**' expresses how much of our income is being committed to the development of education in the country.
- ❖ During **1952-2014**, education expenditure as percentage of total government expenditure increased from **7.92 to 15.7** and as percentage of GDP increased from **0.64 to 4.13**.
- ❖ Elementary education (Primary and middle school 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.
- ❖ In 2014-15, the per capita public expenditure on elementary education differs considerably across states from as high as **₹34,651 in Himachal Pradesh to as low as ₹4088 in Bihar**. This leads to differences in educational opportunities and attainments across states.

❖ About 55 years ago the **Education Commission (1964-66)** had recommended that at least **6% of GDP** be spent on education so as to make a noticeable rate of growth in educational achievements.

❖ The **Tapas Majumdar Committee** appointed by the Government of India in **1999**, estimated an expenditure of around ₹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.

❖ In principle, a goal of 6% needs to be reached- **In 2009**, the Government of India enacted the **Right of children to free and compulsory education Act (Right to Education- RTE)** to make free education a fundamental right of all children in the age group of 6-14 years.

❖ Government of India has also started levying a **2% 'education cess'** on all Union taxes, The revenues from education cess have been earmarked for spending on elementary education

❖ Government grants a huge expenditure to promote higher education and new loan schemes to encourage higher education.

Educational Achievements in India

Particulars	1990	2000	2011	2017-18
Adult Literacy Rate (% of people aged 15+)				
▪ Male	61.9	68.4	79	82
▪ Female	37.9	45.5	59	66
Primary Completion Rate (% of Relevant age Group)				
▪ Male	78	85	92	93
▪ Female	61	69	94	96
Youth Literacy Rate (% of people ages 15+ to 24)				
▪ Male	76.6	79.7	90	93
▪ Female	54.2	68.8	80	90

Inadequacies and Challenges in Education

Though there has been massive expansion and development in the educational sector in India, still the education system suffers some problems, these are:

1. High illiteracy rate

- India has the largest number of illiterates in the world.
- As per 2011 census, the literacy rate is 74.04%.

- Nearly 20% of the children in the age group of 6-14 years are still not going to schools for obtaining education.
- As per UNESCO report 2010, 37% of the illiterate adults in the world are Indians.

2. Gender bias

- The enrolment of girls in elementary education is much below the enrolment of boys.
- According to census 2011, the female literacy rate is nearly 65.46% as compared to male literacy rate of around 82%.
- The differences in literacy rates between males and females are narrowing signifying a positive development in gender equity.

3. Lack of vocational training

- Education in India still continues to be degree-oriented rather than job-oriented.
- Emphasis is only on general education thus neglecting vocational and technical aspect of education.

4. Low standard of education

- In India, quality or standard of education is very low as the syllabi prescribed by various boards and universities does not match with the job requirements.

- Though there have been efforts undertaken to bring desired change in the pattern of examination and evaluation by CCE.

5. Insufficient government expenditure

- Government spends nearly 4% of its expenditure on education which is less than the desired expenditure of 6%.
- If government spends more on education, noticeable rate of growth in educational achievements can be made

6. Privatisation of education

- There is a growing tendency towards attaining education in private institutions.
- Though facilities are better but it is very expensive, Because of heavy expenditure, it goes beyond of many to obtain education in private institutions.

7. Low access level in rural areas

- There is a high degree of disparity in reaching out to facilities of education.
- The access level to education is very low for the people in rural areas as compared to people in the urban areas

अर्थशास्त्र के सभी विषयों एवं कक्षाओं के नोट्स, प्रश्नोत्तर, सैंपल पेपर, वस्तुनिष्ठ प्रश्न, विगत वर्षों के प्रश्नपत्र, अभ्यास प्रश्नपत्र (हिंदी या अंग्रेजी माध्यम) के PDF आपको www.theeconomicsguru.com पर मिल जायेंगे।

इसके साथ ही सभी हिंदी माध्यम तथा अंग्रेजी माध्यम के छात्रों के लिए Free **LIVE CLASS** भी उपलब्ध है, हमारे **YOUTUBE CHANNEL "THE ECONOMICS GURU"** पर। अभी **subscribe** कर लीजिये और ज्यादा से ज्यादा **शेयर** कर दीजिये अपने दोस्तों के बीच। किसी भी प्रकार की समस्या के लिए आप हमसे सम्पर्क कर सकते हैं, YOUTUBE के कमेंट बॉक्स में कमेंट करें या वेबसाइट के Email वाले Option में जाकर **Email** करे या WhatsApp कर सकते हैं Website में लिंक दिया गया है।

धन्यवाद

नकुल ढाली (The Economics Guru)

CBSE, UK Board, UP Board, Bihar Board, MP Board, CG Board, Rajasthan Board, Haryana Board

साथ ही **BA; B.COM; MA** के सभी **SEMESTER** लिए भी अध्ययन सामग्री उपलब्ध है।



अभी VISIT करें

www.theeconomicsguru.com

Subscribe my **YOUTUBE** channel **THE ECONOMICS GURU**



Follow me:

Facebook- *Nakul Dhalli*

Instagram- *@theeconomicsguru*