

HUMAN CAPITAL FORMATION IN INDIA

- Human Resource : It refers to skill and expertise (abilities) of human beings to contribute to the process of value-addition in the economy.
Eg → Doctor has the ability to cure patients.
- Human capital : It refers to the stock of skill and expertise of a nation at a point of time. It is the sum total of all types of workers who are engaged in the process of production.
- Human capital formation : It is the process of adding to the stock of human capital over time.
→ It is the process of increasing the number of persons who have the skill, education and experience which are essential for the economic and political development of a country.
- Human Development : Skill and expertise of human being in itself is an achievement, irrespective of its contribution in the process of value-addition.
 - Human capital is means to an end.
 - Human development, on other hand, is an end result.

★ DIFFERENCE BETWEEN PHYSICAL AND HUMAN CAPITAL

BASIS	PHYSICAL CAPITAL	HUMAN CAPITAL
Meaning	It refers to produced means of production	It refers to skill and expertise of a nation.
Tangibility	It is tangible. It can be sold in the market	It is intangible. It cannot be sold in market.
Process of formation	Decision to invest in physical capital is taken after considering the return from the investment.	Decision to invest in human capital is taken due to influences of friends, educators & society.
Separation from owner	It is separable from owner.	It is inseparable from owner.
Mobility	Mobility of physical capital across borders is restricted only due to trade barriers, otherwise it is completely mobility.	Mobility of human capital is restricted by nationality and culture, it is not perfectly fast mobile.
Depreciation	Depreciation cannot be avoided.	Depreciation occurs with aging, but can be avoided with continuous investment in education, health and training.
Benefits created	Benefits flow from the buyer to producer. It leads to only private benefits.	It does not only create economic benefit for the owner, it also leads to socio-economic benefit of society at large.

★ SOURCES OF HUMAN CAPITAL

- 1) **Expenditure on education**: Most families decide to incur huge expenditure on education because monetary benefits of education far exceed the cost of education.
- 2) **Expenditure on health**: Expenditure on health makes a man more efficient and productive. His contribution in the process of value-addition increases because he adds more to GDP of the nation than a sick person.
- 3) **On-the-job Training**: It helps workers to sharpen their specialized skills. It takes place in different forms:
 - Workers are trained in the firms itself under the supervision of a skilled worker.
 - Workers may be sent for some off-campus training.
- 4) **Study Programmes for adults**: Other than formal education, the government and NGOs organize study programmes for adults to make them more proficient in their work areas. It enhances productivity of our workforce.
- 5) **Migration**: Migration leads to human capital formation through better utilization of inactive skills of the people.

- Migration involves cost of transportation from one place to another and cost of living in different social environment.
- But gains of migration are better than the cost of migration.

6) Expenditure on information: Information relating to job markets and educational institutions offering specialized skills is an important determinant of skill formation.

- It enables people to actualize their productive potential.

★ SIGNIFICANCE OF HUMAN CAPITAL FORMATION

1) Change in Emotional and Material Environment of Growth:

Human capital formation contribute towards a change in emotional and material environment of growth.

- Emotional environment: People acquire growth oriented attitude and aspirations
- Material environment: Higher number of skilled and trained workers implements the plans and programs of economic growth.

2) Higher productivity of physical capital: Specialised engineers and skilled workers can ~~to~~ certainly handle machines better ~~after~~ than the others. It enhance productivity of physical capital and accelerates the pace of ~~growth~~ growth.

- 3) Higher rate of Participation and Equality: Human capital formation increases the rate of participation of labour force in the process of production by enhancing their production capabilities. It also includes greater employment and therefore, equality.

* PROBLEMS FACING HUMAN CAPITAL FORMATION IN INDIA

- 1) Rising Population: Rising population reduces the per head availability of the existing facilities relating to housing, sanitation, drainage, water-system, hospitals, education, power supply, etc. It adversely affects the quality of human capital formation.
- 2) Brain Drain: Migration of persons born, educated and trained in India to other countries is a serious threat in the process of human capital formation in India. Those who migrate are persons of high calibre.
- 3) Deficient Manpower Planning: India is facing an explosive problem relating to graduate unemployment. It shows wastage of human power and human skills.
- 4) Insufficient On-the-job Training in Primary sector: Primary sector has not received due attention in the area of professional skills. So, there is a serious deficiency of human capital formation in primary sector of the economy.

57 Low Academic Standards: We have been opening many universities, unmindful of their academic standards. As a result, we have a large army of half-baked graduates and post graduates whose deficient skills only lowers the level of productivity.

- It is easy to measure change in physical capital formation in terms of units.
- But it is difficult to measure change in human capital formation because a large number of factors that impact productivity of human beings are non-quantifiable.

★ EDUCATION AS AN ESSENTIAL ELEMENT OF HUMAN RESOURCE DEVELOPMENT

- Education: Education is an essential element of human resource development.
 - It is the process of teaching, training and learning (especially in schools and colleges). It improves knowledge and develops skills.
 - According to census 2011, 74.04% of our population is literate.

➤ Education and Literacy

- Education and literacy are not identical.
- Education is much wider concept than literacy.
- Literacy just refers to the ability to read and write.
- On the other hand, education encompasses three parameters - primary, secondary and higher education.
- All educated people are literate, but all literate people are not educate.

➤ Importance and Objective of Education

- Education produces responsible citizens.
- It develops science and technology.
- It facilitates use of natural and human resources.
- It expands mental horizon of the people.
- It promotes economic development through greater participation of people in the process of growth and development.
- It promotes cultural standards of the citizens.
- It develops human ~~at~~ personality.

➤ Need for Government Intervention in Education and Health.

- 1) These sectors need huge investments in a form of high fixed expenditure.
- 2) It is difficult to expect private investors to invest in health and education unless they are allowed to recover their huge cost through high price of these services.
- 3) People in our country cannot afford high price for education and health.
- 4) Government intervention is to ensure that private schools and hospitals do not exploit individual consumers by charging high fee.
- 5) Education and healthcare are the basic rights of citizens. Hence, the government needs to make

provision for free of cost education and health services, at least for the backward section of the society.

➤ Government Expenditure on Education

- 1) The Education Commission had recommended the government of India to must spend around 6% GDP on education to achieve educational growth.
- 2) Compared to the recommended level, the government of India is spending around 4% of GDP on education, which is quite inadequate.
- 3) The government of India appointed the Jayas Majumdar Committee, which recommended the government should spent ₹1.37 lakh crore over a period of 10 years (1998-99 to 2006-07) to bring all the children in the age-group 6 to 14 years under the education cover.
- 4) The expenditure incurred on education in India is fluctuating, increasing in some years and decreasing in some others.
- 5) During 1952-2014, education expenditure as a percent of total expenditure of the government increased from 7.92% to 15.7%.
- 6) Most of the educational expenditure goes to elementary ~~education~~ education.

- Expenditure on elementary education : 49.68% of the total expenditure on education.
- Expenditure of tertiary education : 12.74% of the total expenditure on education.

7) In 2014-15, state of Himachal Pradesh incurred highest expenditure on education, it was lowest in Bihar.

- In 2009, the government of India has made education a fundamental right for all children in the age group of 6-14 years.

- Our government has enacted Right of Children to Free and Compulsory Education Act enacted, which is known as Right to Education Act.

- Under this act, the government is providing free and compulsory education for all children up to the age of 14 years.

- To cope with this expenditure, the government started levying 2% educational cess on all union taxes.

➤ Important Organisations.

- 1) NCERT [National Council of Educational Research and Training]

→ Designs text material up to the senior secondary level. (upto 12th class)

- 2) UGC [University Grants Commission]
→ It is the funding authority for university level. It also frames rules and regulations regarding higher education in the country.
- 3) AICTE [All India Council of Technical Education]
→ It frames rules and regulations regarding technical and engineering education in the country.
- 4) ICMR [Indian Council for Medical Research]
→ It frames rules and regulations regarding education and research in the health sector.

► Education Still a Challenging Proposition

- 1) Large Number of Illiterates: India has the highest number of illiterates in the world. Around 36 crore people are illiterates in India.
- 2) Inadequate Vocationalisation: Education in our country is largely degree-oriented. Hence the rate of unemployment is rising continuously.
- 3) Gender Bias: The enrolment ratio is very low for the female candidates and their drop-out ratio is very high.
- 4) Privatisation: Being very expensive, private education has increased the gulf between access level for the rich and the poor.

5) **Low Rural Access Level:** The access to education is considerably low for the rural population compared to the urban population.

■ ~~96.5% children are~~

6) **Low Government Expenditure on Education:** The education commission had recommended the government of India to must spend around 6% of GDP on education to achieve educational growth. Compared to the recommended level, the government of India is spending around 4% of GDP on education, which is quite inadequate.

- ▶ 96.5% children are now school goes.
- ▶ But quality of infrastructure and education continues to be disappointing.
- ▶ As for "Child Rights and You" (CRY) survey. Children continues to be refused admission in schools because of lack of documentation, birth registration and proof of residence.