



## HUMAN CAPITAL FORMATION AND ITS ROLE IN THE ECONOMIC GROWTH OF A COUNTRY

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### ABSTRACT

*Human capital formation is the development of abilities and skills among the population of the country. In order to transform the liability of the huge size of population into assets, adoption of various measures for human capital formation is essential. Although the accumulation of physical capital is quite important in the process of economic growth of a country but growth of tangible capital stock depends extensively on the human capital formation. In the absence of adequate investment in human capital, utilization of physical capital will be inadequate, leading to retardation of development. In India, rate of human capital formation has consistently increased after Independence due to qualitative improvement in each generation. In the second decade of 21st century, the third generation of workforce is a qualitatively superior human resource in India. The rapid growth of Indian economy in response to improvement in the service sector is an evidence of cumulative growth of Human Capital in India. The Global Human Capital Index 2017 ranks 130 countries on how they are developing their human capital. Human Capital Index serves as a tool for capturing the complexity of education, employment and work force dynamics so that various stakeholders are able to make better informed decisions. The Global Human Capital Index 2017 ranks India at 103, in the last quartile of the Index. The World Economic Forum (WEF), Report 2015 argues — talent, not capital, will be a key factor linking innovation, competitiveness and growth in the 21st century. Though the country's current educational attainment rate has improved over past generations the secondary and tertiary education rates rank poorly. India ranks low on labour force participation with one of the world's largest employment gender gaps. In order to improve and realize the nation's human capital potential it must focus on increasing inclusiveness, expand the access to learning and employment opportunities. In order to overcome economic backwardness and to move towards progress and further development, it is necessary to increase the level of knowledge and skills of the people. In the absence of proper development of the quality of the human factor, India will not be able to attain the desired rate of economic progress. This Research Paper focuses on investments in education to develop Human Capital, the Education Policy, challenges before India to develop the Human Capital to cater to the future needs of the labour force and growing demands of the economy.*

**KEYWORDS:** Education Policy, Global Human Capital Index, Human Capital, Labour Force

### IMPORTANCE OF HUMAN CAPITAL FORMATION IN INDIA

India gave importance to the growth of human capital in the seventh five year plan. In a country like India, which has a very large population, the policy makers decided to give a key role to the human capital formation in the development strategy of India. To accelerate the economic growth of India, a highly educated and trained population will help in accelerating positive changes in society and ensure economic development.



#### Sources of Human Capital Formation-

Expenditure on Education

Expenditure on Health

On-the-Job Training

Study Programmes for Adults

Migration

Expenditure on Information

Human Capital Formation and Economic Growth

Higher Productivity of Physical Capital- Human capital formation increases productivity of physical capital specialised engineers and skilled workers can certainly handle machines better than the other. Innovative Skills it facilitates the use and growth of innovative skills. Innovation is the life line of growth. Higher Rate of Participation and Equality by enhancing productive capacities of the labour force, human capital formation induces greater employment.

Thus, there is a cause and effect relationship between human capital formation and economic growth.

Source: World Population Prospects – 2012 Revision (WPP 2012), United Nations Population Division



## PROBLEMS FACING BY HUMAN CAPITAL

- Formation in India
- Rising population
- Brain drain
- Deficient man power planning
- Low academic standards

## HUMAN CAPITAL AND HUMAN DEVELOPMENT

Human capital and human development are related concepts, but certainly not identical. Human capital is a means to an end. Human development is an end itself.

Education as an Essential Element of Human Resource Development

It implies the process of teaching training and learning especially in schools or colleges, to improve knowledge and develop skills.

Growth of Education Sector in India

Following observations highlight the growth of education sector in India are as-

Expansion of general education

Primary education

Secondary education

Higher education

Vocationalisation of secondary education

Technical, medical and agricultural education

Rural education

Adult and female education

Total literacy campaign

## COMPOSITION OF HUMAN INVESTMENT

### (i) Health and Nutrition

As the poor health and undernourishment adversely affect the quality of manpower, the best way to improve the quality of manpower in underdeveloped countries is to provide adequate food and proper nourishment to people along with adequate health and sanitation facilities.

### (ii) Education and Training

The second composition of human capital formation is to provide education and training facility to the people in general. Investments made in education can accelerate economic growth. Proper utility of manpower depends on system of education, training and industrial experience of the people.

Prof. Singer has rightly observed, “Investment in education is not only highly productive but also yields increasing returns”. In order to raise the general living standards of the people, investment in human capital for making provision for education and training is very much required. Moreover adult education and training is also another integral part of manpower planning.

### (iii) Housing Development:

The final component of human capital formation is the development of housing facilities for the people, which is an important determinant of human resource development. In underdeveloped countries special incentives for private



house construction should be provided in order to provide healthy living conditions to the people. Moreover, steps must be taken to introduce subsidised housing schemes.

## ADVANTAGES OF HUMAN CAPITAL THEORY

### 1. Economic Growth

There is evidence to suggest that high levels of human capital correlate with higher levels of GDP. This is due to the fact that people are better educated, well trained, and therefore able to be more productive in the work place.

### 2. Employee Morale

When workers are better trained and more productive, it also benefits their moral and mental wellbeing. Getting a lot of work done and achieving something at the end of the day is far more rewarding.

### 3. Higher Income Levels

One of the key points of Human Capital Theory was that higher levels would increase income. For instance, higher levels of education boost income levels, with plenty of empirical research that emphasises this point. When people are able to read, write, and critically analyse, they are able to do complex tasks, and by extension, command a higher salary.

### 4. Higher rates of Civic Participation and Reduced Crime

More education, more training, and more skilled workers lead to better socioeconomic outcomes. This translates into improved quality of life for the majority of the population, which, in turn, helps reduce levels of crime. At the same time, a better-educated population is able to address other problems that occur in society.

## CONCLUSION

The Human Capital Index reveals several trends and challenges in the current education, skills and jobs agenda and the future outlook for major economies. These developments imply that we need to rethink how the world's human capital endowment is invested in and leveraged for social and economic prosperity and the well-being of all. Similar to all global challenges in which our existing systems, structures and formal institutions no longer suffice, the world needs a new level of global cooperation on education, skills and jobs. Governments, business leaders, educational institutions and individuals must each understand the magnitude of the change underway and fundamentally rethink the global talent value chain. In order to be proactive in our response to both the current predicaments and a highly uncertain future, we must re-think what it means to learn, what it means to work and what is the role of various stakeholders in ensuring that people are able to fulfil their potential.

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