

## **CLASS- 12 TH, ECONOMICS NOTES**

### **Chapter-5 Human Capital Formation in India (Indian Economic Development)**

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#### **Importance or Role of Human Capital Formation:**

- Effective use of physical capital – The growth and productivity of physical capital depends extensively on the human capital formation. Educated, skilled and healthy people make use of physical capital in an effective manner and raise productivity of capital.
- High productivity and production – Labour skill of an educated person is more than that of an uneducated person, which enables him to generate more income than the uneducated person and hence Contributes more to the economic growth. Similarly, a healthy person could provide uninterrupted Labour supply for a longer period of time. This implies human capital formation raises productivity and Production.
- Inventions, innovations and technological improvement – The human capital formation stimulates Innovations and creates ability to absorb new technologies.
- Increases life expectancy – Formation of human capital raises life expectancy of the people. Health Facilities and availability of nutritive food enable people to live a healthy and long life. This in turn, Adds to the quality of life.
- Improves quality of life – Educated and healthy people lead a good quality life.
- Control of population growth – It has been observed that educated persons have smaller families as compared to illiterate families. So, spread of education is necessary to control the population growth rate.

#### **Relationship Between Human Capital and Economic Growth:**

Economic growth means the increase in per capita real income (or increase in per capita availability of goods and services) of a country.

- The contribution of an educated person to economic growth is more than that of an illiterate person.

- Similarly, a healthy person also contributes to economic growth by providing uninterrupted labour supply For a longer period of time.
- Thus, both education and health, along with many other factors like on-the-job training, job market Information and migration, increase an individual's income generating capacity.
- 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.
- Similarly, the availability of educated labour force facilitates adaptation to new technologies.

#### **Cause and Effect Relationship between Human Capital and Economic Growth:-**

Human capital formation stimulates the process of economic growth. However, economic growth also Impacts human capital formation. Growth implies increase in per capita real income (or increase in per Capita availability of goods and services). Higher income facilitates higher investment on education and Skills implying human capital formation. On contrary increase in human capital leads to efficient/ better Utilization of fixed capital, better quality of life, higher life expectancy, implying increase in productivity/ Efficiency leading to increase in GDP growth.

However, it is difficult to prove cause and effect relation between human capital and economic growth, Due to measurement problems.

1. For example, education measured in terms of years of schooling, teacher-pupil ratio and enrolment rates May not reflect the quality of education;
2. Similarly, health services measured in monetary terms, life expectancy and mortality rates may not reflect the true health status of the people in a country.
3. Hence it is difficult to establish a relation of cause and effect from the growth of human capital (education And health) to economic growth. However, growth in each sector has reinforced the growth in every other Sector. It is believed that the causality between human capital and economic growth flows in either Directions -

- ✓ higher income causes building of high level of human capital and
- ✓ high level of human capital causes growth of income.

#### **Indicators of Educational Achievements in India:**

- Adult Literacy Rate (per cent of people aged 15+)
- Primary completion rate (per cent of relevant age group)
- Youth literacy rate (per cent of people aged 15+ to 24)

#### **State of Human Capital Formation in India:**

- India recognised the importance of human capital in the Seventh Five Year Plan.
- Trained and educated on sound lines, a large population can itself become an asset in accelerating Economic growth and in ensuring social change in desired directions.
- India is a federal country with a union government, state governments and local governments (Municipal corporations, Municipalities and Village Panchayats). The constitution of India mentions The functions to be carried out by each level of government.
- Accordingly, expenditure on both education and health are to be carried out simultaneously by all the 3 tiers of the country.
- The Draft National Education Policy 2019 states that “India aspires to take its place beside the United States and China as the third largest economy by 2030-2032... By 2030-2032 we will be the third Largest economy at over ten trillion. Our ten trillion economy will not be driven by natural resources, But by knowledge resources. Thus, we need a knowledge society based on a robust education system, With all the requisite attributes and characteristics in the context of changes in knowledge demands, Technologies, and the way in which society lives and works”. This policy vision suggests how human Formation in India will move its economy to a higher growth trajectory position.
- India as a Knowledge Economy – The Indian software industry has been showing an impressive Record over the past two decades. Entrepreneurs, bureaucrats and politicians are now advancing views About how India can transform itself into a knowledge-based economy by

using information technology (IT). There have been some instances of villagers using e-mail which are cited as examples of such Transformation.

### **Need for different forms of government interventions in education and health sectors:**

The expenditure on education and health assume a great importance in the formation of human capital. The government intervention in the education and health sectors is important because of the following Reasons:

- a) The 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. Expenditure on education and health make substantial long-term impact and they cannot be Easily reversed. Hence, government intervention is essential.
- b) Individual consumers of these services do not have complete information about the quality of services And their costs. In this situation, the providers of education and health services acquire monopoly power and are involved in exploitation. 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.
- c) Regulatory authorities in India:
  - 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) facilitate institutions which come under the education sector.
  - Similarly, the ministries of health at the union and state level, departments of health and various organisations like and National Medical Commission and Indian Council for Medical Research (ICMR) facilitate institutions which come under the health sector.
- d) In India, a large section of the population is living below the poverty line and they cannot afford to access basic education and health care facilities. Moreover, a substantial section of people cannot afford to reach super specialty healthcare and higher education. Furthermore, when basic education and health care is considered as a right of the citizens then it is essential that the government should provide education and health services free of cost for the deserving citizens and the socially oppressed classes.

### **Problems in Human Capital Formation:**

- Inadequate resources - The resources allocated to the formation of human capital have been much less than the resources required. Due to this reason, the facilities for the formation of human capital have remained grossly inadequate.
- High growth of population - The continuous rise in population has affected the quality of human capital as it reduces per head availability of the facilities.
- Brain Drain - People migrate from one place to another in search of better job opportunities and better salaries. This leads to the loss of a class of skilled labourers like doctors, engineers etc. who have high calibre and are rare in a developing country. The cost of such loss of quality human capital is very high.
- Lack of proper manpower planning: There is an imbalance between demand and supply of human resources of various categories, especially in case of highly skilled personnel. The absence of such balancing has resulted in the wastage of resources.
- Low academic standards: The quality of education imparted by many of our educational institutions is far below the international standards. In respect of education, the performance is unsatisfactory especially in the field science and technology and development of modern technology.