
CHAPTER 5

HUMAN CAPITAL FORMATION IN INDIA

- ❖ **Human Capital** is a stock of skill and expertise of a nation's population at a particular point of time.
- ❖ **Physical Capital** refers to the stock of **produced means of production** such as machines, production plants, tools and equipments, etc.
- ❖ **Financial Capital** refers to the financial claims against the assets of the companies. In other words, it implies stocks or shares of the companies. It comprises of equity shares, preference shares, debentures, term loans, etc.
- ❖ **Human Development**
 - It refers to the holistic development and well being of a nation's human capital.
 - It emphasises the investment in education and health sector to increase the general well being and standard of living of human capital.
 - It protects every individual's right to receive education and lead a healthy life.
 - Human development is a broader term as compared to human capital.
- ❖ **Sources of Human Capital Formation**
 - Investment in Education Sector
 - Investment in Health Sector
 - On-the-Job Training
 - Migration-It refers to the movement of people to developed countries in search of better jobs and economic opportunities
 - Investment in Information System catering to the informational needs regarding various jobs vacancies, salaries, eligibility criterion, various medical information, vaccination, awareness, etc.
- ❖ **Role of Human Capital Formation in Economic Growth**
 - **Increase in the productivity** of physical capital by its optimum and efficient utilisation.
 - **Innovation of techniques**- A skilled person has more potential to innovate new techniques than unskilled one.
 - **Skilled and healthy workforce** increases the **people participation rate** in the economic growth process, thereby promoting social and economic equality.
 - **Quality human capital** lays conducive environment for economic growth.
- ❖ **Indicators of Educational Achievement**
 - **Adult Literacy Rate** indicates the percentage of the literate adult population who are aged 15 years and above. It denotes the stock of literate population within the youth population.
 - **Youth Literacy Rate** indicates the percentage of literate people between age of 15-24 who can read and write. It provides a measure of the stock of literate persons within the adult population.



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- **Primary Education Completion Rate** indicates the percentage of students completing the last year of primary school. It measures the literacy rate between age group of 6-14 years (in the class group 1 to 8).

❖ **Various Organisations** of the Government to regulate education sector.

- **NCERT (National Council of Education Research and Training)** is responsible for designing the textbooks up to standard 12th.
- **UGC (University Grants Commission)** is the prime funding authority for university education.
- **AICTE (All India Council for Technical Education)** enforces rules and regulations regarding technical engineering education in the country.
- **ICMR (Indian Council for Medical Research)** formulates rules and regulations relating to education and research in health sector.
- **National Institute of Health and Family Welfare** is responsible for promotion of health and family welfare programmes.

❖ **Education and Health- A Vital Input for the Economic Development**

- Impart technical skills, knowledge and quality health.
- Develop mental abilities and productivity of workforce, thereby enabling people to make their choice rationally and intellectually and churning out good citizens by inculcating values in them.
- Greater acceptability of modernisation and modern techniques.
- Eradicate skewed income distribution and promote egalitarian society.
- Raise standard and quality of living.
- Increase the people participation rate in the economic growth and development process.
- Higher life expectancy rate and greater per capita contribution to the economic growth.
- Help in eradicating various other macroeconomic problems such as, poverty, income inequalities, population, investment bottlenecks, under utilisation of productive resources, etc.

❖ **Problems faced by Human Capital formation in India**

- **Shortage of resources** due to rising population
- **Brain Drain** i.e. economic loss due to migration of quality human capital from the LDCs to the developed countries
- **Improper Manpower Planning**- Absence of any major efforts to maintain the demand-supply balance of the rising labour force led to the wastage and misallocation of human skills
- **Low Academic Standards**- Mushroom growth in the number of educational institutions resulted in their deficiency of quality and standard. This in turn led to deficiency in the production and efficiency.
- **Secondary and higher education** have been assigned comparative higher priority than the free and compulsory primary education. Consequently, India is experiencing high rate of primary school drop-outs.



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- **Rural-urban Migration-** People migrates from the rural areas to the urban areas in search of better job opportunities. The failure of the urban industries to absorb the excess labour compels such migrants to engage themselves in informal sectors. Hence, poverty, high illiteracy and poor access to medical facilities come into the scene.

❖ **Importance of Women Education**

- Important to improve the economic independence and economic feasibility of women.
- Essential in order to raise the social and moral status of the women.
- Plays a significant role in maintaining favourable fertility rate.
- Educated women infuse good moral values and impart quality education to her children.
- More educated and well-aware are the women, higher will be the health status of a nation.

❖ **Need for Government Intervention in Education and Health Sectors**

- Private institutions are guided by the profit motive and demand-supply relation. Consequently, **the cost of education and health facilities is comparatively higher.**
- **Majority of people cannot afford** to avail services rendered by the private institutions due to their economic inability.
- The **interests of underprivileged sections of population** such as, ST, SC, OBC, etc. can only be protected by the interference of the government.
- **People do not have complete information** about the quality of services and various relevant costs; consequently, government interference becomes necessary.
- Private institutions **lack access to remote and rural areas** due to economic feasibility of such areas.
- Government should make people **aware of regarding the benefits of the quality education and better health standards.**
- Education and health sectors have **long gestation periods and their benefits are far reaching.** Therefore, government cannot rely completely on the private sector to develop these important sectors.

❖ **Education- What more needs to be done?**

- **High Illiteracy Rate:** Still a significant proportion of population is illiterate.
- Need to impart more technical, vocational and job-oriented educational courses.
- Access to education is gender biased. Males have greater access to higher and secondary education than their female counterparts.
- Need for more public investment in the education sector in order to safeguard the social and economic interests of the underprivileged sections and poverty-trodden section of population.
- More emphasis to increase female literacy rate and improve their economic and social status.
- Need for government interference in regulating fees structure and operations of private institutions.
- Greater penetration in the remote and rural areas.
- Spread of awareness regarding the benefits of education and need for special programmes and projects to check the growing difference between the Gross Enrolment Ratio and School Drop-out Rate.

