



INDIAN ECONOMIC DEVELOPMENT

REVISION NOTES

CHAPTER-5

HUMAN CAPITAL FORMATION IN INDIA

➤ **Human Capital**

It refers to the stock of skill, ability, expertise, education and knowledge involved in the people.

• **Two Major Sources of Human Capital in Country**

- 1) **Expenditure on Education:** It is one of the most important sources of human capital formation. Investment in education is not only highly productive but also it yields increasing return and accelerates economic growth of all the resources education receives most importance because it gives maximum contribution to the development of the country.
- 2) **Expenditure on Health:** Health is an important input for a development of a nation. Expenditure on health is needed in the following areas. A sick labourer without access to medical facilities is compelled to abstain from work and there is a loss of productivity. The various forms of health expenditure are preventive medicine, curative medicine, social medicine, provision of clean drinking water, etc.

• **Importance of Human Capital Formation**

- 1) **Education facilitates use of resources in the country:** Human capital formation raises the productivity and production as knowledgeable and skilled worker makes the better (use of the resources). Increase in productivity and quality production depends on technical skill of the people which can be acquired only by education or training and maintaining health of the people.

- 2) **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.
- 3) **Improves Quality of life:** The quality of population depends upon the level of education health of a person and skill formation acquired by the people. Human capital formation not only makes people productive and creative but also transforms the lives of the people.
- 4) **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.
- 5) **Effective use of physical capital:** Its growth and productivity depends on human capital formation.

- **Reasons for Poor Human Capital Formation**

- 1) **Insufficient Resources:** The resources allocated to the formation of human capital have been much less than the resources required for meeting the educational & health needs of the country. Due to this reason, the facilities for the formation of human capital have remained grossly inadequate.
- 2) **Serious Inefficiencies:** There are a lot of wastages of society's resources as capabilities of educated people are either not made use of in case of unemployment or are underutilized in case of unemployment. Massive literacy, non-education of many children, poor health facilities are other inefficiencies, which have not been attended to adequately & properly.
- 3) **High Growth of population:** The continuous rise in population has adversely affected the quality of human capital.

- 4) **Lack of proper manpower planning:** There is an imbalance between the demands for the 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.
- 5) **High Poverty Levels:** Majority of population falls below poverty line affecting the human capital formation.

➤ **Physical Capital**

It refers to all those inputs which are required for further production, like plant and machinery, factory, buildings, raw materials, etc.

➤ **Difference Between Human Capital and Physical Capital**

Human Capital	Physical Capital
1) Human capital is intangible and cannot be sold in the market.	1) Physical capital is tangible and can be easily sold in the market.
2) Depreciation in Human Capital can be reduced by making continuous investment in education in health and education.	2) It depreciates with the passage of time.
3) Human capital is less mobile between countries.	3) It is more mobile between countries
4) Human capital (like skills of a person) cannot be separated from the own.	4) Physical capital (like machinery) separated from its owners.
5) Formation of human capital is partly a social process by partly a conscious decision of the possessor of the human capital.	5) Physical capital is the outcome of the conscious decision of the owner and is mainly an economic and technical process.
6) Human capital formation is to be done through conscious policy formulations.	6) It can be formed easily with machines.

➤ **Difference between Human Capital and Human Development**

Human Capital	Human Development
1) Human Capital consider education & health as a means to increase labour productivity.	1) Human Development is leased on the Idea that education & health are integral to human well being.
2) In Human capital, investment in education and health is considered to be unproductive, if it does not increase output of goods & services.	2) In case of human development, investments in education and health is taken to be productive, even if it does not leads to higher output.
3) Human capital treats human beings as a means to an end; the end being the increase in productivity.	3) In the human development perspective, human welfare should be increased through investment in education & health as every individual & health as every individual has a right to be literate & lead a healthy life.

➤ **Education**

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

● **Growth of Education Sector in India**

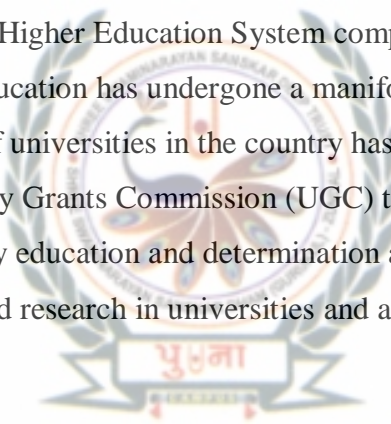
There has been considered growth in the field of Education. The number of schools increased from 230.7 thousand (1950-51) to 1,215.8 thousand (2005-06). The no. of teachers in the same period increased from 751 thousand to 6010 thousands & no of students from 23,800 thousand to 2,22,700 thousand.

● **Gross Environment Ratio**

Gross Enrollment Ratio (GER) is the total enrolment of pupil in grade or cycle or level of education, regardless of age, expressed as percentage of the corresponding eligible official age group population in a given school year. GER in elementary education increased steadily from 82% in 1950-51 to 94.85% in 2005-06.

- **Education Sector in India**

- 1) **Elementary education:** Elementary Education in India means eight years of schooling from the age of six i.e., primary & middle school education together, is called Elementary Education. Elementary Education, therefore is the foundation on which the development of every citizens and the nation as a whole hinges. The government has made elementary education compulsory and free. But, the goal of universal elementary education in India has been very difficult to achieve till now.
- 2) **Secondary Education:** Secondary Education, which starts with classes IX and X leads to senior secondary classes XI and XII aims to in cooperate basic skills & analytical abilities. It provides a stepping stone to higher professional and technical education.
- 3) **Higher Education:** The Higher Education System comprises both general and technical education. The higher education has undergone a manifold expansion since Independence. The no. of universities in the country has increased from 27 in 1950-51 to 350 in 2005-06 University Grants Commission (UGC) takes measures for promotion and coordination of university education and determination and maintenance of standards in teaching, examination and research in universities and allocation and disbursement of grants to them.



- **Problems/ Weakness in Education Sector**

- 1) **High Illiteracy:** According to 2001 census, the literacy rate of 64.8 percent is still far off the 100 percent mark.
- 2) **Gender Bias:** Education in India is gender biased. The enrolment of girls in both primary and upper primary classes is much below the boys.
- 3) **Low Quality Education:** The quality of the education is fairly low.
- 4) **Lack of Vocational and Technical Training:** Too much emphasis on general education neglecting the Vocational and Technical Education.

5) **Low Level of Government Expenditure:** Actual level of expenditure is only 3.46% compared to the desired level of 6%.

- **Primary Education Schemes**

1) **Sarva Shiksha Abhiyan (SSA)**

It was launched in 2001 to universalize & improve the quality of Elementary Education in India through community ownership of Elementary Education. The SSA is being implemented in partnership with states to address the needs of children in age group of 6-14 years.

2) **National Programme for Education of Girls at Elementary Education (NPEGEL)**

The programme is aimed at enhancing girl's education by providing additional support for development of a model girl child friendly school. In every cluster with more intense community mobilization and supervision of girls enrolment in schools. Under NPEGEL, 35,252 models schools have been opened.

3) **Kasturba Gandhi Balika Vidyalaya (KGBV)**

The Kasturba Gandhi Balika Vidyalaya (KGBV) scheme was launched in July 2004 for setting up residential schools at upper primary level, for girls belonging predominantly to the SC, ST, OBC & minority community. The scheme ran as separate scheme for two years but was merged with Sarva Siksha Abhiyan w.e.f April 1, 2007.