

Human Capital: The Tool for Economic Growth and Development

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Abstract:

The key for the future of any country and any institution lies in the talent, skills and capabilities of its people. A Country's human capital endowment—the skills and capacities that reside in people and that are put to productive use—can be a more important determinant of its long term economic success than virtually any other resource. This resource must be invested in and leveraged efficiently in order for it to generate returns, for the individuals involved as well as an economy as a whole. Talent shortages is one the burning problems of developed and developing countries. If this problem is not solved quickly, then it may lead to many social as well economic problems. Therefore it is essential to pay attention to how these shortages can be met in the short term and prevented in the long term. This paper focus on importance of human capital in the growth and development of the countries as well also discuss different barriers in the formation of human capital.

Key Words: Physical Capital, Human Capital, Education, Training

Introduction

Capital refers to already produced durable goods which further contribute to the production of goods and services. In simpler words, capital refers to any produced good/service which enables an individual/organization to deliver high quality output. Capital acts as a catalyst to increase productivity in organizations. A nation can convert physical resources like land into physical capital like factories; similarly, it can also turn human resources like students into human capital like engineers and doctors. Sufficient human capital is needed in the form of competent people who skills, knowledge and talent for overall development of the country. In other words, we need good human capital to produce other human capital like doctors, engineers scientists teacher etc. There is need to investment in human capital to produce more human capital out of human resources. Every organization invests its money and resources to train new employees. Employees in turn work hard, upgrade their existing knowledge and contribute in their own way to increase the productivity of their organization. Investment in education and health is unproductive if it does not enhance output of goods and services.

Human capital considers education and health as a means to increase labour productivity. Human capital is defined as the collective stock of skills, attributes, knowledge, and expertise of employees which further plays an integral role in increasing the productivity of the organization.

The four pillars of human Capital

The four pillars of the Index are:

- The Education pillar contains indicators relating to quantitative and qualitative aspects of education across primary, secondary and tertiary levels and contains information on both the present workforce as well as the future workforce.
- The Health and Wellness pillar contains indicators relating to a population's physical and mental well-being, from childhood to adulthood.
- The Workforce and Employment pillar is designed to quantify the experience, talent, knowledge and training in a country's working-age population.
- The Enabling Environment pillar captures the legal framework, infrastructure and other factors that enable returns on human capital.

Need Human Capital in the Organization

Employees are the lifeline of an organization. An organization can't survive if there are no employees. Organization runs with the help of individuals who contribute in their own way in its success and productivity. Employees spend maximum part of their day in offices and strive hard to achieve the goals and objectives of the organization. Employees ought to be motivated from time to time so that they develop a sense of attachment towards their organization and also deliver their best. Every employee in his/her tenure acquires some set of skills through his experience, exposure, trainings and so on which further increase his/her productivity eventually benefitting the organization. Knowledge and expertise which employees develop in due course of time to further increase the productivity of organizations refer to human capital. Every employee tries his level best to sharpen his/her skills during his stint with the organization.

Importance of Human capital formation

1. Human Capital formation is very important for the growth of an economy.
 - (i) Effective use of physical capital: Its growth and productivity depends on human capital formation.
 - (ii) 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. Inventions, innovations and technological improvement are all due to the extra knowledge acquired during education which provides lot of innovations and inventions.
3. The knowledgeable, skilled and physically fit people help in the human capital formation.
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. 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.
6. 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.

Factors influencing human capital

Human development occurs when majority of people in the economy are educated and healthy.

The factors that contribute to human capital formation are:

- **Education:** It not only helps in increasing individual's productivity but also stimulates innovation and creates ability to absorb new technologies. It enhances the present economic condition and improves the future prospects of a country.
- **Health:** Expenditure on health increases efficiency, efficacy and productivity of a nation's workforce. A healthy person is more productive and asset for a nation than an unhealthy person. Good health and medical facilities not only increase the life expectancy but also improve quality and standard of living. It includes provision of clean drinking water, good sanitation facilities, better medical facilities etc.
- **Training:** Job training is a source of human capital formation as the return of such expenditure in the form of enhanced labour productivity is more than the cost of it. It is the most effective kind of training to a trainee, imparting him the technical skills and know-how at the actual work site. This helps the trainee not only to acquire the theoretical and practical skills simultaneously but also enables him to learn from the experiences of his trainer.
- **Migration:** People migrate in search of better job opportunities and higher salaries. Migration involves cost of transportation and higher cost of living at migrated place. The enhanced earnings outweigh the costs of migration so, expenditure on migration is also a source of human capital formation.
- **Information:** The degree of availability of jobs, salaries and admissions related information also play an important role in the determination of human capital. This information is necessary to make decisions regarding investments in human capital as well as for efficient utilization of the acquired human capital stock.

Problems of human capital

The main problems of human capital formation in India are:

- **Rising population:** Rapidly rising population exerts pressure on the limited resources hence reduces per capita available resource.
- **Less Quality:** Human capital must be made qualitatively. But to provide education, a lot of education institutions set up which provide inferior quality of education and skills. This is also happening with health care facilities.

- **Brain Drain:** People migrate from one place to another in search of better job opportunities and handsome salaries. Migration of highly skilled labour is termed as Brain Drain which adversely affects the economic development.
- **Improper Man Power Planning:** India lacks in proper man power planning. No major efforts have been taken to maintain the demand-supply balance of the rising labour force. So, it leads to the wastage and misallocation of human skills.

Education Sector and human Capital in India

This expenditure by the government is expressed in two ways (i) as a percentage of 'total government expenditure' (ii) as a percentage of Gross Domestic Product (GDP). The percentage of 'education expenditure of total government expenditure' indicates the importance of education in the scheme of things before the government. The percentage of 'education expenditure of GDP' expresses how much of our income is being committed to the development of education in the country.

Elementary education takes a major share of total education expenditure and the share of the higher/tertiary education (institutions of higher learning like colleges, polytechnics and universities) is the least. Though, on an average, the government spends less on tertiary education, 'expenditure per student' in tertiary education is higher than that of elementary. This does not mean that financial resources should be transferred from tertiary education to elementary education. As we expand school education, we need more teachers who are trained in the higher educational institutions; therefore, expenditure on all levels of education should be increased.

One can understand the inadequacy of the expenditure on education if we compare it with the desired level of education expenditure as recommended by the various commissions. More than 40 years ago, the Education Commission (1964—66) had recommended that at least 6 per cent of GDP be spent on education so as to make a noticeable rate of growth in educational achievements. In December 2002, the Government of India, through the 86th Amendment of the Constitution of India, made free and compulsory education a fundamental right of all children in the age group of 6-14 years.

Budget 2015: Implications for the education sector

If India has to achieve GDP growth of 8 per cent, then it needs a skilled, trained and educated workforce to make it possible.

1. Expenditure on education: Rs 68,960 crore has been set aside for education and mid-day meals. It should address the problems of primary education and improve retention of students at the school level. It should be more than just investing into physical infrastructure for higher education alone.

2. Skills development: Skills development has the largest impact in the education sector from this Budget. It will lead to job creation at the bottom of the pyramid.

The government is investing heavily into sectors like infrastructure, energy, and manufacturing, Swatch India, Clean Ganga and Digital India. This means skills-based training to produce industry and work ready talent. The proposed Skill India and National Skill Mission will consolidate skills across 31 sectors.

3. Digital India and digital education: The Budget did not get into the 'Digital India' initiative, whose goal is to enhance digital infrastructure, deploying e-governance and e-services. There were expectations on substantial budgetary allocations to further the digital education agenda. MHRD (Ministry of Human Resource Development) has also announced its first set of MOOCs (massive open online courses), and allocation to develop a rich variety of content for these courses was highly anticipated. It can be a meaningful way for improvement in higher education enrolment and can help learn-as-you-work.

4. Major institutions: The FM was not populist in announcing IITs, IIMs and other new institutions of higher learning across the country. Attracting globally recognised academics of Indian origin or from elsewhere is an important point and this needs to be proactively addressed at these institutions.

5. Visas: Visa- on-arrival from 150 countries will help attract researchers, academics and students. This could further help create India as a global hub for education.

6. Student loans: The FM made a bold statement when he said that no student should have to miss higher studies due to financial constraint. The success of the student loan scheme will lie in its fine print.

7. Start-ups: Setting up SETU (Self-Employment and Talent Utilization) with an outlay of Rs 1,000 crore to support start-ups is a plus for young companies and technologies. Microfinance for entrepreneurs will enable young companies to be created and to grow in a sector that has a long gestation period. Public sector banks do not provide working capital to technology, e-learning and content companies in this sector as they are unable to understand the models.

Start-ups in service sectors like retail, e-commerce, training, education, etc. are excluded from the CGTMSE scheme of the Indian banking system. They would receive great encouragement and support if such facilities are extended to these sectors.

8. Royalty Tax: Reduction of the Royalty Tax would have a positive impact on digital and online learning companies. While education institutions are eligible to heavy discounting from corporate, companies supporting the sector did not get the same benefits.

The principle of these policy decisions were sound and made for a positive and impactful Budget. While government plays the role of policy maker, success will take place when the private sector is permitted to play a larger role in implementation. This means quicker decision making, transparent transactions and smoother fund flows.

Conclusion

The economic and social benefits of human capital formation and human development are well known. The union and state governments in India have been earmarking substantial financial outlays for development of education and health sectors. The spread of education and health services across different sectors of society should be ensured so as to simultaneously attain economic growth and equity. India has a rich stock of scientific and technical manpower in the world. The need of the hour is to better it qualitatively and provide such conditions so that they the government must regulate the fee structure in education and health care institutions for increasing human capital. Education and health sectors are the two major sources for the formation of good quality human capital. The economic growth of a country depends on human capital formation. There is a great contribution of private institutions in educational and health care facilities. Also, the fees of both are very high in private made institutions as these are guided by profit motive. Therefore, intervention in health and education sector to regulate the fees structure is must in order to enhance the quality of human capital.

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