



# *Economics Notes PDF*

*On*

*Human Capital Formation in India*

*(Class - 12)*

## **HUMAN CAPITAL**

It refers to a person's store of talent, aptitude, expertise, education, and knowledge that will contribute in enhancing labour productivity, and increased future income.

## **SOURCES OF HUMAN CAPITAL FORMATION**

### **1. Expenditure on Education:**

It is one of the primary sources of human capital development. Investment in education is not only highly productive, but it also generates growing returns and promotes economic progress. Of all the resources, education receives the greatest attention because it contributes the most to the country's development.

### **2. Expenditure on Health:**

Health is another important source of human capital formation. 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.

### **3. On-the-job Training:**

On and off campus training of employees, in terms of training by a supervisor in the firm itself, or training at an off campus location enhances the skill and productivity of an individual, and makes him more accustomed to the work environment and work he is supposed to do.

### **4. Migration:**

Migration to other locations within or outside the country either due to unemployment or better professional opportunities is also a source of human capital formation.

### **5. Expenditure on Information:**

A person incurs expenses in terms of acquiring information about labour markets, product markets, capital markets, and education, health in order to ensure efficient utilisation of human stock and make better decisions regarding them. This is also a part of human capital formation.

## **ROLE OF HUMAN CAPITAL FORMATION IN ECONOMY**

- 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 Human capital facilitates innovation of new methods of production and this increases the rate of economic growth in the form of increase in GDP.
- Higher Rate of Participation and Equality By enhancing productive capacities of the labour force, human capital formation induces greater employment. Also, increase in employment opportunities also increases the level of income and this helps in reducing inequalities of wealth.
- Brings Positive Outlook The process of human capital formation brings in a positive outlook to the society which is different from orthodox and traditional ways of thinking, and hence increases the rate of participation in the workforce causes increase in level of production.

## **THE MAIN PROBLEMS OF HUMAN CAPITAL FORMATION IN INDIA ARE AS FOLLOWS:**

**(i) Rising Population:** Rapidly rising population adversely affects the quality of human capital in underdeveloped and developing countries like India. It reduces per head availability of existing facilities like sanitation, employment, drainage, water system, housing, hospitals, education, food supply, nutrition, roads, electricity, etc.

**(ii) Brain Drain:** Migration of highly skilled labour to foreign countries is termed as 'brain drain'. This slows down the process of human capital formation in the domestic economy.

**(iii) Inefficiencies in Planning:** There is inefficient planning in less developed countries where no efforts have been made either to raise the standard of education at different stages or to maintain the demand and supply of technical labour force. It is a reflection on the wastage of human power and human skill.

**(iv) Long-term Process:** The process of human development is a long-term policy because skill formation takes time. The process which produces skilled manpower is slow. This also lowers our competitiveness in the international market of human capital.

**(v) High Poverty Levels:** A large proportion of the population lives below the poverty line and do not have access to basic health and educational facilities. A large section of society cannot afford to get higher education or expensive medical treatment for major diseases.

## **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.

## **EDUCATION**

It refers to the process of teaching, training, and learning, which takes place mostly in schools and colleges, to increase their knowledge and skills.

### **1. Growth of Education Sector in India:**

In the sphere of education, there has been significant progress. From 1950 to 1951, the number of schools climbed from 230.7 thousand to 1,215.8 thousand (2005-06). During the same time, the number of teachers climbed from 751 thousand to 6010 thousand, while the number of pupils increased from 23,800 thousand to 2,22,700 thousand.

### **2. Gross Enrollment Ratio:**

The Gross Enrollment Ratio (GER) is the total number of students enrolled in a grade, cycle, or level of education, regardless of age, represented as a percentage of the population of the matching eligible official age group in a particular school year. From 82 percent in 1950-51 to 94.85 percent in 2005-06, GER in primary education has gradually increased.

## **OBJECTIVES OF EDUCATION**

- An educated society facilitates better development programs than an illiterate one.
- Education improves productivity and prosperity, and also improves enriched life experience.
- It does not only contribute towards the growth of the people but also the development of society as a whole.
- Education increases national income and other cultural richness.

## **IMPORTANCE OF EDUCATION**

Education tends to raise productivity and creativity, as well as stimulate entrepreneurship and technological breakthroughs. All of these factors lead to greater output and economic growth. Education provides a foundation for development, the groundwork on which much of our economic and social well being is built. It is the key to increasing economic efficiency and social consistency. By increasing the value and efficiency of their labor, it helps to raise the poor from poverty.

## **EDUCATION SECTOR IN INDIA**

- **Elementary Education:** Elementary education in India entails eight years of learning beginning at the age of six, i.e., primary, and middle school education combined. As a result, elementary education is the

bedrock upon which the development of all citizens and the nation is built. Elementary education has been made compulsory and free by the government. However, achieving the goal of universal primary education in India has proven to be a difficult task.

- **Secondary Education:** Secondary education, which begins in grades IX and X and ends in grades XI and XII, strives to develop basic skills and analytical ability. It serves as a stepping-stone to more advanced professional and technical training.
- **Higher Education:** Both general and technical education is part of the higher education system. Since independence, higher education has grown in leaps and bounds. The country's university population has grown from 27 in 1950-51 to 350 in 2005-06.

The University Funding Commission (UGC) is responsible for promoting and coordinating university education, as well as determining and maintaining standards in teaching, assessment, and research, as well as allocating and disbursing grants to universities.

### **PROBLEMS FACED IN PROGRESS OF EDUCATION IN INDIA**

- Lack of capital
- Expensive higher education
- Neglect of Indian languages
- The problem of brain drain
- Mass illiteracy
- Wastage of resources
- General education oriented
- Problems of primary education

### **FUTURE PROSPECTS**

The Indian government considers education a key sector where considerable growth and development is required. Thus, it has set some future prospects for framing its policies.

These prospects are discussed below

**1. Education for All:** Still a Distant Dream, although the education level in India has risen for both adults as well as for youth. Still the number of illiterates in India is as much as the population was at the time of Independence. In 1950, when the Constitution of India was passed by the constituent assembly, it was noted in the directive principles of the constitution that the government should provide free and compulsory education for all children up to the age of 14 years within 10 years from the commencement of the constitution.

The following factors make education still a distant dream

- Large number of illiterates
- Inadequate vocationalisation
- Gender bias
- Low rural access level
- Privatisation
- Low government expenditure on education

**2. Gender Equity :** Better than Before. The differences in literacy rates between males and females are narrowing, signifying a positive development in gender equity; still the need to promote education for women in India is imminent for various reasons, such as

- Improving economic independence.
- Social status of women.

- Healthcare of women and children.

Therefore, we cannot show the satisfaction about the upward movement in literacy rates as we have miles to go in achieving cent percent adult literacy.

**3. Higher Education: A Few Takers.** The Indian education pyramid is steep, indicating a lesser and lesser number of people reaching the higher education level. As per NSSG (National Sample Survey Organisation) data, in the year 2007-08, the rate of unemployment for youth with education up to secondary level and above was 18.1% whereas, the rate of unemployment for youth with education up to primary level was only 11.6%.

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