

## HUMAN CAPITAL FORMATION

The development of human resources means increase in the quality of human beings, which helps in the process of growth and development of the economy. A critical resource for economic success is human capital. According to Professor Whipple, "A nation's true wealth is neither in its land and water, nor in forests and mines, nor in its flock and herds, nor in dollars but in its wealthy and happy men, women and children."

**Physical Capital:** This refers to all the inputs needed for more production, such as buildings, factories, machinery, raw materials, etc.

- In order to utilize physical resources, one must have physical capital.
- Its accumulation is crucial to a nation's economic development.
- One bases their decision to invest in tangible capital on their level of understanding in this area. An entrepreneur is capable of calculating the projected rates of return on a variety of investments and making a logical decision about which one to make.
- The processes involved in physical capital production are primarily technological and economic.

**Human Capital:** It refers to the skills which a person acquires through education, training and experience, adding to his/her value to the production process.

- It is the people's store of aptitude, experience, education, and knowledge.
- To employ physical capital effectively, human capital is required.
- To create more human capital from human resources, investments in human capital are required.
- In the form of capable individuals who have undergone their own education and training to become professors and other professions, societies require an adequate amount of human capital.

PHYSICAL CAPITAL	HUMAN CAPITAL
<ul style="list-style-type: none"> <li>• Physical capital is tangible.</li> <li>• It can be easily sold in the market.</li> <li>• It depreciates with the passage of time.</li> <li>• It is more mobile between countries.</li> <li>• Physical capital can be separated from its owner.</li> <li>• Physical capital is the outcome of conscious decision of owner.</li> <li>• It can be built through imports.</li> </ul>	<ul style="list-style-type: none"> <li>• Human capital is intangible.</li> <li>• It cannot be sold in the market.</li> <li>• Depreciation in human capital can be reduced by making continuous investments.</li> <li>• Human capital is less mobile between the countries.</li> <li>• Human capital cannot be separated from the owner.</li> <li>• Formation of human capital is partly a social process and partly a conscious decision.</li> <li>• Human capital formation s to be done through conscious policy formulations.</li> </ul>

### MEANING OF HUMAN CAPITAL FORMATION (HCF)

Human Capital Formation refers to the process of addition made to the stock of skilled and capable people in the country over a period of time. In other words, HCF refers to development of lines and skills among the population of the country.

### SOURCES OF HUMAN CAPITAL FORMATION

1. **Expenditure on Education**: The system of education and training of individuals determines the appropriate use of manpower. An educated individual has more labor skills than an illiterate one, allowing him to earn more money than the latter. Economists have emphasized that increasing a country's educational options is essential since it speeds up its growth. Education contributes to economic growth because:
  - Education confers higher earning capacity on people;
  - It improves pride and social prestige;

- It makes it possible to make wiser decisions in life;
- It offers information necessary to comprehend the societal changes occurring;
- It also encourages creativity;
- It makes adjusting to new technology easier.

2. Expenditure on Health: By directly increasing the availability of healthy human labor, health expenditures are a source of human capital accumulation. Undernourishment and ill health have a negative impact on labor quality. Investment in health is crucial to creating and sustaining productive labor since workers without access to medical facilities are forced to miss work and lose output.

Types of Health Expenditure:

- Preventive Medicine known as vaccination;
- Curative Medicine, Le. medical intervention during illness;
- Social Medicine, i.e. spread of health literacy;
- Provision of clean drinking water;
- Good Sanitation facilities.

3. On-the-Job Training: As previously said, an increase in human capital significantly raises the productivity of physical capital. For this reason, a lot of companies provide their employees on-the-job training.

- This type of training has the benefit of being quick and inexpensive to deliver;
- it raises worker skill and efficiency, which raises labor productivity and boosts the output of commodities.
- This kind of training keeps staff members abreast of developments in their line of work.

Various kinds of on-the-job training are available:

- (a) Workers may be trained in the firm itself under the supervision of a skilled worker,
- (b) Workers may be sent for off-campus training.
- After receiving on-the-job training, the company may require its employees to work for a set amount of time in order to reap the advantages of their increased productivity as a result of the training. Employees may be sent for off-campus training.
  - It is a source of human capital development since the increased labor productivity that results from investing in this kind of training outweighs the costs incurred.
4. **Expenditure on Migration**: Individuals relocate in quest of employment opportunities that offer greater incomes.
- In search of employment, unemployed individuals from rural regions go to metropolitan areas.
  - People with technical qualifications—engineers, physicians, and the like—move abroad in search of better employment opportunities.
  - The expenses associated with migration in both of these scenarios are as follows: the price of moving to a new location, the higher cost of living there, and the psychic cost of moving to a foreign sociocultural setting and experiencing higher levels of stress or a decline in quality of life.
5. **Expenditure on Information**: Information on the labor market and other marketplaces is acquired through expenditure. It includes the sum of money used to research educational institutions, their standards, and the price of education.

## IMPORTANCE OR ROLE OF HUMAN CAPITAL FORMATION

1. **Efficient use of Physical Capital**: Human capital generation has a major role in the growth and productivity of physical capital.

Because physical capital can only be produced by the intellectual and hard labor of people in the economy, human skill and labor are essential to the efficient use of physical capital.

2. **Higher output and productivity:** As experienced and informed workers make better use of the resources, human capital formation increases production and productivity. A person's technical skill, which can only be developed via education, training, and maintaining their health, determines their productivity and quality of output. Investing in human capital facilitates the acquisition of new skills as well as knowledge about resource management, technology, and production.
3. **Innovations, inventions, and technical advancement:** The development of human capital fosters inventions and builds capacity for absorbing new technologies. Knowledge gained by education enables one to comprehend societal shifts and scientific breakthroughs, which promotes inventions and innovations. In the same way, having qualified workers makes it easier to adjust to new technology.
4. **Modernization of attitudes:** People who possess these qualities—knowledge, talent, and physical fitness—are effective agents of social change. A nation's economic progress is contingent upon the mindset of its citizens and their evolving perspectives toward fostering a 'will' for progress.
5. **Increases life expedancy:** The development of human capital lengthens people's lives. People can live long and healthy lives thanks to health facilities and the availability of nutrient-dense food. Consequently, this enhances the standard of living.
6. **Improves Quality of Life:** The education, health, and skill development of a population are factors that determine its quality. In addition to fostering creativity and productivity, human capital development also changes people's lives.

7. **Control of population growth.** It has been shown that literate people tend to have larger families than uneducated people. Therefore, educating more people is essential to limiting the rate of population expansion.

## PROBLEMS OF HUMAN CAPITAL FORMATION

1. **Inadequate resources:** Compared to what is needed, far fewer resources have been devoted to the development of human capital. The facilities for the development of human capital have remained woefully insufficient as a result.
2. **Serious inefficiencies:** The skills of educated individuals are either misused (in the case of underemployment) or not used at all (in the case of unemployment), wasting a great deal of society's resources. Other inefficiencies that have not been sufficiently and correctly addressed include widespread illiteracy, a large number of youngsters not receiving an education, and inadequate health facilities.
3. **Brain Drain:** People move from one location to another in pursuit of better employment chances and higher pay. It results in the loss of high-caliber professionals such as physicians and engineers, who are scarce in developing countries. The cost of a loss of excellent human capital is quite expensive.
4. **High growth of Population:** Rapid population expansion has had a negative impact on the quality of human capital. It diminishes the per capita availability of facilities.
5. **Several imbalances:** Higher education, which is intended for a small number of individuals, has received a bigger amount of resources than basic and secondary education. Because of this, overall economic production has remained low.
6. **Inadequate human resource planning:** There is a mismatch between demand and supply, particularly for highly qualified workers. The lack of such balance has resulted in waste of resources.
7. **Weak science and technology:** Education performance is particularly bad in the disciplines of science and the development of contemporary technologies.

## HUMAN CAPITAL AND HUMAN DEVELOPMENT

Human Capital	Human Development
Human capital is the whole of labor's capabilities, such as skills, working capacity, education, health, and intellect	Human development is defined as the process of increasing human capacity in terms of skills and rights.
It is a comparably narrow concept	It is a far larger idea.
It argues that maintaining good health is the most effective strategy to boost labour force productivity.	It thinks that excellent health and education are essential for an individual's overall development because they allow them to make decisions that lead to a happy and secure existence.
The rise in human capital leads to human development.	Human growth does not always lead to the production of human capital.
Health and education are ineffective in terms of human capital unless they boost productivity.	Even if they do not boost output, human development thinks that excellent health and a good education improve human wellbeing.
Human Capital is an economic concept	Human Development is a social concept

## GROWTH OF THE EDUCATION SECTOR IN INDIA

1. **Elementary education:** Elementary education is for kids aged 6 to 14 who are in grades 1 through 8. The National Policy on Education suggested free and compulsory education for all children up to the age of 14. The following are some of the most important programs for expanding and improving primary education in the country
  - a. **Sarva Shiksha Abhiyaan:** It was debuted in 2001. Under this plan, the central government would collaborate with state and local governments to realize the aim of universal basic education. The objectives of this strategy are the following:

- Bridging the gender gap.
  - The goal is to achieve universal retention by 2016.
  - By 2005, the Education Guarantee Centre, Alternative School, and Back to School Camp had been established.
- b. **Education Guarantee initiative and Alternative and Innovative Education:** This initiative aims to provide children with basic education. To enhance student enrollment and retention in education, school camps have been used.
- c. **Mid-day Meal Plan:** It was introduced on August 15, 1995. The goal of this system is:
- To enhance the nutrition of primary school pupils.
  - To give nutritional assistance to primary school pupils in drought-affected communities during summer vacations.
  - Encouraging disadvantaged youngsters to go to school more regularly.
- d. **District Primary Education Programme:** It began in 1994. The program offers a holistic approach to primary education development, putting the Universal Primary Education policy into action through district-specific planning. The program is implemented via state-registered societies.
- e. **Operation Blackboard:** Launched in 1987-88. The major goal is to offer basic amenities (two spacious rooms, two instructors, and learning materials) in all elementary schools.
2. **Secondary education** : Since the establishment of universal primary education, it is critical to progress to the universalisation of secondary education. As a result, during the 11th plan, it was decided to begin a Scheme for Universalising Secondary Education and improving secondary school quality. The primary purpose of this initiative is to make education more inexpensive and accessible to all young pupils. Secondary-level institutions grew from 7,416 in 1950-51 to 1.52 lakh in 2004-05. During this time, enrolment rose from 15 lakh to 371 lakh pupils.



- 3. University and Higher Education:** The number of universities in the country has expanded from 27 in 1950-51 to 1,056 by 2022. Similarly, the number of colleges in the country has risen from 496 in 1950–51 to 42,323 in 2020. The University Grants Commission was created in 1956. It takes initiatives to promote and coordinate university education, as well as to establish and maintain standards in teaching, examination, and research in universities, and it makes funding available to them. Indira Gandhi National Open University (IGNOU) was founded in 1985. It is in charge of introducing and promoting Open University and remote technical education into the country's educational system, as well as maintaining the system's standards.