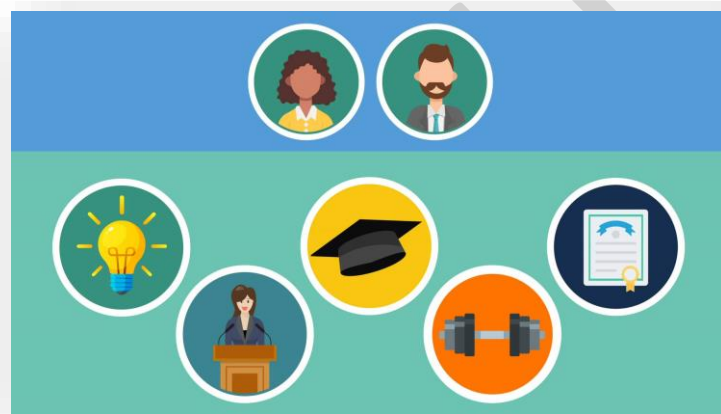


Chapter – 4



It refers to development of abilities and skills among the population of the country. The purpose of investing in human capital to produce more human capital out of human resources.

DIFFERENCE BETWEEN PHYSICAL CAPITAL AND HUMAN CAPITAL



v/s



Nature	Tangible and can be easily sold in the market.	Intangible and cannot be sold in the market.
Depreciation	It depreciates with the passage of time.	Depreciation in human capital can be reduced by making continuous investments in education and health.
Mobility	It is more mobile between countries.	Less mobile between countries as compared to physical capital.
Separation	Physical capital (like machinery) can be separated from its owner.	Human capitals (like skills of a person) cannot be separated from the owner.
Formation	It can be built through imports.	Formation is to be done through conscious policy formulations.

DIFFERENCE BETWEEN HUMAN CAPITAL AND HUMAN DEVELOPMENT



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Purpose	It considers that investment in education and health is unproductive, if it does not increase the output of goods and services	It considers that human welfare should be increased through investments in education and health if such investments do not result in higher labour productivity
Means	It treats human beings as a means to an end, the end being the increase in productivity	Human beings are an end in themselves
Scope	Human capital is a narrow concept	Human development is a broader concept
Meaning	It states education and health as a means to increase labour productivity	It states that education and health are integral to human well-being because only when people have the ability to read and write, they have ability to make healthy life

1. HEALTH:



- Productivity of a healthy worker is much more than that of a sick person, or a person with poor health.
- Various forms of health expenditures
 - ❖ Preventive medicine (vaccination)
 - ❖ Curative medicine (Medical intervention during illness)
 - ❖ Social medicine (spread of health literacy)
 - ❖ Provision of clean drinking water and good sanitation.

Health expenditure directly increases the supply of healthy labor force and is, thus, a source of human capital formation.



2. TRAINING:

- ❖ Productivity of physical capital is substantially enhanced with the improvement in human capital.
- ❖ Due to this reason, many firms provide on- the-job training to their workers in two ways-
 - ✓ Workers are trained in the firm itself under the supervision of a skilled worker.
 - ✓ Workers are sent for off-campus training.
- ❖ It increases the skill and efficiency of the workers and leads to an increase in production and productivity.



3. INFORMAION:



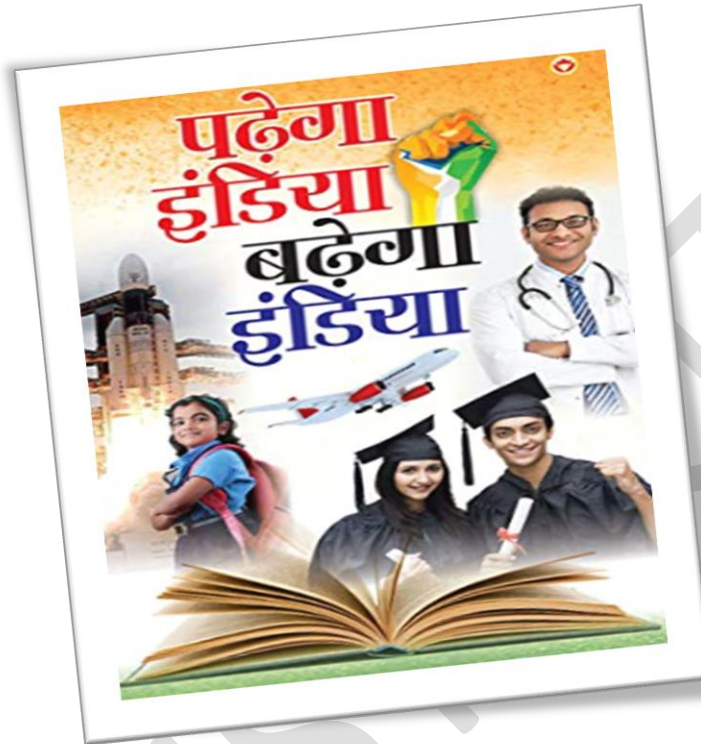
- ❖ It involves amount spent on seeking information about Labor market and other markets like education and health.
- ❖ Information is necessary to make decisions regarding investments in human capital as well as to efficiently utilize the acquired human capital stock.
- ❖ For example, people want to know the level of salaries associated with various types of jobs, or whether the educational institutions provide the right type of employable skills, and at what cost.

4. MIGRATION:

- ❖ People migrate from one place to another in search of jobs that fetch them higher salaries.
- ❖ Unemployed people migrate from rural areas to urban areas in search of better employment opportunities.
- ❖ Technically qualified people (like engineers, doctors, etc.) migrate to other countries because of higher salaries that they may get in such countries.
- ❖ Expenditure on migration is a source of human capital formation as better earnings in the migrated place is more than the increase in costs due to migration.



5. EDUCATION:



- ❖ Economists have stressed the need for expanding educational opportunities in a nation as it accelerates the development process and economic growth.
- ❖ Spending on education by individuals is similar to spending on capital goods by companies.
- ❖ Skill of an educated person is more than that of an uneducated person, which enables him to generate more income. Apart from that-
 - ✓ Education gives higher earning capacity to people.
 - ✓ It provides knowledge to understand the changes taking place in society.
 - ✓ It also encourages innovations.
 - ✓ It facilitates adaptation of new technologies.

1. HEALTH	Improves productivity of labor and enhances the quality of life
2. TRAINING	Improves skill and efficiency of the workers
3. INFORMATION	Helps in making better decisions regarding investment in human capital
4. MIGRATION	Helps in increasing earnings of migrants in new inhabited places
5. EDUCATION	Improves skills, helps in increasing future earnings and improves standard of living

1. Economic growth means the increase in real national income of a country.

- The contribution of an educated person to the economic growth is more than that of an illiterate person.
- Similarly, a healthy person also contributes to economic growth by providing uninterrupted labor supply for a longer period of time.
- Thus, both education and health, along with many other factors like on-the-job training, job market information and migration, increases the income generating capacity of an individual.

2. HCF promotes inventions, innovations and technological improvements

- The human capital formation(HCF) not only increases the productivity of human resources but also encourages innovation and creates ability to absorb new technologies.
- Education provides knowledge to understand changes in society and scientific advancements, thus, it facilitates inventions and innovations.
- Similarly, the availability of educated labor force facilitates adaptation to new technologies.

If trained and educated on sound lines, a large population can itself become an asset in accelerating economic growth and in ensuring social change in the desired directions.



It is difficult to prove the cause and effect relation between Human Capital and Economic growth.

Due to measurement problems, it is difficult to prove that increase in human capital causes economic growth.

- For example, education measured in terms of years of schooling, teacher-pupil ratio and enrolment rates may not reflect the quality of education.
- Similarly, health services measured in monetary terms, life expectancy and mortality rates may not reflect the true health status of the people in a country.

Conclusion: - it is difficult to establish a relation of cause and effect from the growth of human capital (education and health) to economic growth. However, growth in each sector has reinforced the growth of every other sector.



EXPENSES



Expenditures on both education and health are to be carried out simultaneously by all the three tiers of the government.

1. Union government
2. State governments
3. Local governments

The **Ministry of Human Resource Development (MHRD)** is responsible for the development of human resources in the country.



1. National Council of Educational Research and Training (NCERT).

- Established on September 1, 1961 as an apex national body to lead qualitative changes in school education.

2. University Grants Commission (UGC).

- Established on December 28, 1953 for the determination and maintenance of teaching, examination and research in university education.

3. All India Council of Technical Education (AICTE).

- Established in November 1945 for development of the technical education and management education system in India.

REGULATORY AUTHORITY (HEALTH SECTOR)



- In the field of health, the **Ministry of Health and Family Welfare (MoHFW)** is instrumental and responsible for implementation of various programmes on the national scale in the areas of health and family welfare, prevention and control of major communicable and non-communicable diseases as well as promoting research across the country. Health ministries and departments at the State level are also engaged in this task.
- **The Indian Council of Medical Research (ICMR)** is the apex and premier medical research organization in the country. It is engaged in the task of research, professional development, collaboration, and knowledge dissemination regarding various medical and health issues through its research institutions and medical colleges.



NEED FOR GOVERNMENT INTERVENTION (LIFE)


1. **L**ong term impact-
The expenditures on education and health make substantial long-term impact and they cannot be easily reversed.
2. **I**nformation lacking-
Individual consumers of these services do not have complete information about the quality of services and their costs.
3. **F**undamental right of the citizen-
A Welfare State must ensure that all citizens of the country get basic education and health facilities as a matter of right. This is not possible unless government intervenes to provide basic education and health facilities to the poor and weaker sections free of cost.

4. **E**nsure Check on monopoly-

Private sector is governed by profit motive and is not interested in providing education and health facilities at a reasonable cost which is affordable to all. And the State will have to do this job.

Growth in Government Expenditure on Education

The expenditure by the government on education is expressed in two ways which indicates the importance of education in the scheme of things before the government-

1. As a percentage of total government expenditure:
During 1952 – 2014, it increased from 7.92 to 15.7.
 2. As a percentage of Gross Domestic Product (GDP):
During 1952 – 2014, it increased from 0.64 to 4.13.
- 

Recommendations of various commissions-

- Education Commission (1964 – 66) had recommended that at least 6 % of GDP should be spent on education. However, the current level expenditure is little over 4 %.
- The Tapas Majumdar Committee, appointed by Indian Government in 1998, estimated an expenditure of around Rs.1.37 lakh crore over 10 years (1998-99 to 2006-07) to bring all Indian children in the age group of 6-14 years under the purview of school education.

Inadequate expenditure on education

- The expenditure on education is very less as compared to the desired level of education expenditure recommended by the various commissions.
- Elementary Education (primary and middle school education) takes a major share of total education expenditure.
- Share of higher or tertiary education (institutions of higher learning like colleges, polytechnics and universities) is the least.

GOVERNMENT STEPS TO IMPROVE EDUCATION

- ✓ Right to education In 2009:- the Govt. of India enacted the Right of Education Act to make free education a fundamental right of all children in the age group of 6-14 years.
- ✓ Education Cess:-Govt. of India has imposed 2% "Education Cess" on all Union taxes by spending on elementary education.
- ✓ Education loans: - the government has sanctioned a large amount and loan schemes to promote higher education for students



FUTURE PROSPECTS IN EDUCATIONAL SECTOR

1. Education for All: Still a Distant Dream

- In 1950, Directives of the Constitution directs that the government should provide free and compulsory education for all children up to the age of 14 years.
- The literacy rates for both adults as well youth have increased.
- However, the absolute number of illiterates is still as much as India's population was at the time of independence.

2. Gender Equity: Better than Before

- The differences in literacy rates between males and females are narrowing. It indicates a positive development in gender equity. However, women education needs to be promoted-
 - To improve economic independence and social status of women.
 - Women education makes a favorable impact on fertility rate and health care of women and children.

3. Higher Education: a Few Takes

- The Indian education pyramid is steep, indicating lesser and lesser number of people reaching the higher education level.
- As per NSSO data, in 2011-12 the unemployment rate of unemployment among youth males who studied graduation and above in rural areas was 19%.
- An urban counterpart has relatively less level of unemployment at 16%. The most severely affected ones were young rural female's graduates as nearly 30% of them are unemployed.
- Therefore, the government needs to increase allocation for higher education and also improve the standard of higher education institutions, so that students are imparted employable skills in such institutions.