

## ROLE OF EDUCATION IN HUMAN CAPITAL FORMATION IN INDIA

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### **ABSTRACT**

*Developing skills in the population speeds up the process of human capital formation, along with physical capital accumulation. The three most important pillars of human capital formation are education, health and technical knowledge (skill). Technical knowledge brings about new methods of production, leads to inventions and development of new equipments and education is an important instrument for social, economic and political transformation of any society. Thus an economy should spend more resources on education and technical skills but developing economies being capital deficit economies are faced with the problem of scarcity of capital and very little amount is spent on educating people. Rate of growth in such economies consequently remain low. Here it is the responsibility of the Government to increase its support to educational institutions at various levels, investment in education and skills of the people and providing basic services to all. The channelling of significant amount of resources by the state in education and technical knowledge greatly enhances human capital formation. The main objective of this paper is to examine how education helps in human capital formation and at the same time throw light on the various Government efforts to increase human capital formation in India. The study is mainly based on the secondary data which was collected from various books, journals, publications etc.*

**KEYWORDS:** *Human Capital Formation, Physical Capital, Economic Growth, Education, Health*

### **INTRODUCTION**

Traditionally, we have attached greater importance to accumulation of physical capital in the process of economic development, but now we have realized that human resources are an utmost important driver in modern economic growth. Even the economists today concede that growth of physical capital accumulation is considerably based on human capital formation. Human capital formation is the process of acquiring and increasing the number of persons who have the skill, education and experience which are critical for the economic and political development of a country (Meier, 1971). The significance of human capital was realized even in the past, evident from Adam Smith's book, "An Enquiry Into The Nature And Causes Of Wealth Of The Nations" (1776), "The annual labour of every nation is the fund which originally supplies it with all the necessaries and conveniences of life. "The concept was forgotten by economists until 1960's when it was adopted by (T.W. Schultz, 1961) for the first time. (Becker, 1964), (Bowmen, 1966) and other economists deepened this concept and showed how the concept of investment in human capital could influence the future real income through embedding resources (skill and knowledge) in individuals. Today, with the technological advancement and economic progress, the world is caught in a multifarious process of transformations in all spheres of life. The most important challenge is how to attain human capital formation and economic growth. The concept of human capital formation is assuming greater economic significance not only in

India but all over the world, as the advantages of demographic dividend can only be reaped if the young population is healthy, educated and skilled.

### **GROWING SIGNIFICANCE OF HUMAN CAPITAL**

In the 21<sup>st</sup> century human resources have become an active component of modern economic growth. It is the efficiency of human resources which determines the pace of economic growth of an economy. Today, “human resource” is more understood as a “human capital” or a “human asset”. Human capital unlike the physical capital is intangible and denotes the money value of the knowledge, skills and competency of the people. Human capital formation is reflected in the increased efficiency and the productivity of the labour force. According to OECD, human capital is defined as, “The knowledge, skills, competencies and other attributes embodied in individuals or group of individuals acquired during their life and used to produce goods, services or ideas in the market circumstances.” The main reason for the rapid economic growth of the developed nations has been the relatively more investment on education, health, research and training. Talking on the significance of human capital formation Galbraith has rightly remarked “We now get the larger part of our industrial growth not from more capital investment but from investment in men and improvements brought about by improved men”.

- The need for investment in human capital arises;
- For accelerating rate of economic growth.
- Removal of backwardness, poverty, unemployment.
- For controlling population explosion.
- For economic and structural transformation of the country.
- To make physical capital more productive.
- Raising the general standard of living of the people.
- To ensure greater returns which far outweighs its costs.

#### **“Where Does India Stand In Human Capital Formation”**

India has the second largest population in the world and exceeds 1.3 billion. India has more than 50% of the population below the age of 25 years and more than 65% below the age of 35 years. It is expected that by 2020, the average of an Indian will be 29 years– in comparison to 37 years for China and 48 years for Japan. India’s Finance Minister Smt. Nirmala Sitharaman in her budget speech said, “By 2030, India is set to have the largest working-age population in the world. Not only do they need literacy but they need both job and life skills.” Global Human Capital Report 2017 presented by World Economic Forum gave a comprehensive ranking of 130 countries on the basis of an index that measured the preparedness of the countries talent to contribute to economic growth and productivity. India ranks in the 103<sup>rd</sup> position. The index measured the countries investment in developing talent across the lifecycle through vital parameters like education and employment that formed a key part in enhancing human capital. Although the country’s current educational attainment rate has improved markedly over past generation, its youth literacy rate is still only 89% well behind the rates of other leading emerging markets as well as the lower middle income groups average. According to the Human Capital

Index compiled by World Bank as a part of World Development Report 2019, India ranked at 115<sup>th</sup> position in the index with its score of 0.44 on a scale of 0 to 1 coming even below the average score for South Asia. The report covers 157 countries and seeks to measure the amount of human capital that a child born today can expect to attain by the age of 18. In the case of India given its score of 0.44 a child born today will be only 44% as productive when he or she grows up as they could be if they enjoyed complete education and good health.

### **“Education” A Pillar Of Human Capital Formation”**

Education, health and technical knowledge (skills) are the three significant pillars of human capital formation. But education in general and technical knowledge (skills) in particular is twin forces in enhancing human capital formation. Education brings about social, economic and political transformation in the society while technical knowledge brings about new methods of production, leads to inventions and development of new equipments. A good quality education provides the necessary skills to make the appropriate use of resources for increased national income. A high quality human capital demands development and consistently thrives for it. The role of education in human capital formation is that if the people are not educated then they could not do anything in the field of capitalization of nation. Education is an important input for growth of a person. Thus human capital is directly and indirectly affected by quality of education and plays an important role in both physical capital accumulation and rapid economic growth.

- Education outlay in the Indian Budget's
- Budget 2017: Of the total outlay of Rs. 79,685.95 Crores for the education sector for the financial year 2017-18 up from Rs. 72,394 crores in 2016-17. A rise of 9.9 % of the total outlay Rs. 46,356.25 crores was for school sector and the rest for higher education.
- Budget 2018: Keeping education the priority sector the government allocated Rs. 85,010 crores for the education sector an increase of Rs.3,141 crores only, or which was comparatively 4% more than the previous years.
- Budget 2019: The total budget outlay for the education sector in budget 2019 was about Rs. 94,853.64 Crores an increase of nearly Rs.10,000crores of what 2018-19 budget estimates had pegged for the sector. An amount of Rs. 56,536.63 crores was pegged for schools and Rs. 38,317.01 crores was for higher education.
- Budget 2020: Budget 2020 has increased the allocation for education sector by 5 % to Rs. 99,311. 52 crores in financial Year 21, of this the department of higher education has been allocated Rs. 39,466.52 crores while the school education and literacy department was given Rs. 59,845 Crores. For the skill development ministry and its various programmes an allocation of Rs. 3002.21 crores has been proposed for financial year 21 compared to Rs. 2531.04 crores in Financial Year 20.

### **GOVERNMENT INITIATIVES IN HUMAN CAPITAL FORMATION**

The economy should spend more resources on education and technical knowledge (skills) but the developing economies being capital deficit economies are faced with the problem of scarcity of capital and very little amount is spend on educating people. The rate of economic growth in such economies remains low. Here, it is the responsibility of the government to increase support to educational institutions at various levels, invest in education skills of the people and provide basic services to all. India realised the importance of human capital in financial development in

its early stages. The seventh five year plan (1985-1990) says, “Human resource improvement has essentially to be appointed a key part in any development technique, especially in a nation with such a grand population.” Indian government is actively involved in improving human capital by offering education and technical knowledge to its people. The government is aware that education and knowledge will boost economic growth. From time to time various key initiatives have been taken by the government in education, health and technical knowledge to develop human capital in the country .These include;

- Right to Education Act.
- Sarva Shiksh Abhiyan.(2000-01)
- Rastriya Madhymik Siksha
- Beti Bachao Beti Padhao. (BBBP) (2014)
- Balika Vidyalaya Yojana.(2014)
- Samgra Shiksha
- Kasturba Gandhi Balika Vidyalaya Yojana (2014)
- Swacch Bharat Mission
- Ayushmann Bharat Programme
- Pradhan Mantri Ujjwala Yojana
- National Skill Development Mission (2015)
- Pradhan Mantri Kaushal Vikas Yojana (PMKVY)
- Deen Dayal Upadhyaya Grameenkaushalya Yojana (DD-GKY) (2014)
- Pradhan Mantri MUDRA Yojana (PMMY) (2015)
- Pradhan Mantri Jandhan Yojana
- Deen Dayal Antyodaya Yojana -National Urban Livelihood Mission (DAY-NULM)
- Aadhar Identification System
- Skill India Mission.(2015)

## CONCLUSIONS AND SUGGESTIONS

- Even when the population of the country is more than 1.3 billion individuals, skilled manpower is still cited as scarce.
- The advantages of demographic dividend can only be reaped through proper manpower planning with minimum wastages of human resources.
- Country’s educational attainment rate has improved over the past generations but it is still 89%, which falls

behind the rates of other leading emerging markets.

- As a percentage of total government expenditure and as a percentage of GDP the total educational expenditure has increased over the last few years. The government expenditure on education has gone up from 3.8% of GDP in 2014 to 4.6% in 2019, which is still less than the targeted 6%.
- Several educational measures along with technical knowledge, innovations and entrepreneurship continue to play a dynamic role in creating human capital formation in India.
- A number of policies and programmes related to health, education and skill development have been introduced by the government from time to time, we now look forward to see the outcomes of these efforts and how they will contribute towards human capital formation in India.
- Rapid population growth is the greatest hurdle in human capital formation and economic growth. Population growth needs to be checked and controlled by raising literacy levels, awareness and by giving various incentives to individuals for family planning.
- No project can be a success in absence of government will and financial resources. So the educational institutions, financial institutions and various Ministries of the government should join hands to ensure a high quality human capital in India.
- Human capital formation is based on long-term planning involving huge capital investments. A monitoring mechanism should be devised to evaluate how far investment in these government initiatives has been successful in ensuring an increase in human capital.

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