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Topic: Human Capital Formation

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HUMAN CAPITAL FORMATION

The term human capital formation implies the development of abilities and skills among the population of the country. In order to transform the liability of the huge size of population into assets adoption of various measures for human capital formation is very much essential.

Human Capital, also known as Human Resource is the backbone of any nation. These human resources mainly consist of students who gradually turn into accountants, engineers or doctors. These students depending on their efficiency and capability become a Human Assets for the country. It is a process for increasing and acquiring the number of candidates who are best fitted according to their skills, educational qualification and professional experience which is crucial for the political and economic development of the country



Definition

- G.M. Meier defines Human Capital Formation as *“Human capital formation is the process of acquiring and increasing the number of persons who have education and experience which is essential for the economic and political development of a country”*.
- According to Harbison, the human capital formation indicates, *“The process of acquiring and increasing the number of persons who have the skills, education and experience which are critical for the economic and the political development of the country. Human capital formation is thus associated with investment in man and his development as a creative and productive resource.”*



Five ways of developing human capital formation

- Health facilities and services, broadly conceived to include all expenditure that affect the life expectancy, strength and stamina, and the vigour and vitality of the people;
- On-the-job training, including aid type apprenticeships organised by firms;
- Formally organised education at the elementary, secondary and higher levels;
- Study programmes for adults that are not organised by firms, including extension programmes notably in agriculture;
- Migration of individuals and families to adjust to changing job opportunities.



Composition of Human Investment:

The following are the components of human investment:

(i) Health and Nutrition: As the poor health and undernourishment adversely affect the quality of manpower, the best way to improve the quality of manpower in underdeveloped countries is to provide adequate food and proper nourishment to people along with adequate health and sanitation facilities.

(ii) Education and Training: The second composition of human capital formation is to provide education and training facility to the people in general. Investments made in education can accelerate economic growth. Proper utility of manpower depends on system of education, training and industrial experience of the people.

Prof. Singer has rightly observed, “**Investment in education is not only highly productive but also yields increasing returns**”. In order to raise the general living standards of the people, investment in human capital for making provision for education and training is very much required. Moreover adult education and training is also another integral part of manpower planning.



(iii) Housing Development: The final component of human capital formation is the development of housing facilities for the people, which is an important determinant of human resource development. In underdeveloped countries special incentives for private house construction should be provided in order to provide healthy living conditions to the people. Moreover, steps must be taken to introduce subsidised housing schemes.

(iv) On the job training:

This is crucial for inculcating specific skills and knowledge into the HR. On the job training usually takes place in a corporate wherein the organization provides training to its freshers. With the help of these training, the HR is able to develop the requisite skills. This in turn directly leads to the formation of human capital.

(v) Expenditure on Information

Information related to the labour market and other markets like education, health can be attained by paying to acquire information. For example, information regarding salaries is available for different markets.



Need of human capital

- ***Higher Productivity of Physical Capital:*** Human capital boosts the productivity of physical capital as skillful and professional operative can understand and function the machines or guidelines efficiently than untrained operative. This boosted productivity paves a way to [economic growth](#)
- ***Innovative Skills:*** Human capital encourages the advancement of new techniques for production and this results in the increase of economic development in the shape of an increase in GDP. This has an effect on the state of human capital in India.
- ***Higher Rate of Contribution and Equality:*** Human capital formation prompts a higher employment rate. With the expansion in [employment](#), the productiveness rises. Additionally, expansion in work openings likewise boosts the level of income and this aide in diminishing imbalances of wealth. Both, the increment in employment rate and a decline in wealth imbalance are indicators of economic development.
- ***Brings Positive Viewpoint:*** The procedure of human capital formation brings an optimistic outlook to the public which is not the same as cynical and traditional mindsets, and thus builds the rate of cooperation in the workforce causes a rise in the level of [production](#).



Reports

- According to two reports, one from Deutsche and other from World Bank have recognized that India would develop faster because of its forte in human capital formation.
- According to Deutsche Bank (a German Bank's) report on Global Growth Centres, it has been recognized that India will develop as one of four noteworthy development centers on the planet by 2020. This report additionally says that between 2005 to 2020, we expect a 40% increase in the average of education in India, to simply over 7 years.
- It additionally expresses that the Indian economy has all the key elements for making this progress, for example, a critical amount of gifted specialists, a well working democratic government and a differentiated science and technology. In this manner, two reports bring up the way that further human capital formation in India will move its economy to a higher development.



Steps to improve human capital formation

- India spends 4.6% of its total GDP on education and ranks 62nd in total public expenditure per student according to IMD.
- Providing mid-day meal
- Opening of skill development centres
- Promoting research and development through national research foundation
- Promoting digitalisation through internet of things, Big Data, 3D printing and virtual reality which is relevant for global competitiveness



Problems of Human Capital Formation in India

- **Growing Population** Increasing population unfavorably influences the nature of human capital in underdeveloped and developing nations like India. Hence, it diminishes per head availability of existing means like sanitation, jobs, drainage, water purification system, city plan, hospitals, education centers, [training](#) centers, food supply, nutrition, roads, electricity, power, and so forth.
- **Brain Drain** Migration of highly talented workers is 'brain drain'. As a result, this proves to be a hindrance to the procedure of human capital formation in the home country.
- **Inept Manpower Planning** There is immature labor [planning](#) in developing nations where no efforts have been made either to increase the standard of training at various stages to keep up the demand and supply of technical labor. It is a tragic reflection on the wastage of local power and local talent.
- **Longstanding Process** The procedure of human development is a long haul approach since skill arrangement requires some duration. The procedure which produces gifted labor is in this way, moderate. This additionally brings down our competitiveness in the global market of human capital.
- **High Poverty Levels** A good amount of population lives underneath the poverty line and don't have access to basic wellbeing and education. Therefore, a substantial segment of society can't bear to get an advanced education or costly health treatment for major diseases.



Conclusion

In order to develop various sectors of the economy, a country should introduce manpower planning for the development of its human resources. Manpower planning indicates planning of human resources for meeting the development needs of the economy.

Just for proper utilisation of manpower resources, a country should impart proper education to its population and train its labour force in technology, engineering, management, medicine and in many other fields connected with the development of various sectors of the economy.

The most important factor in human capital formation is the development of top skills. As this skill formation is a time consuming process, thus the entire process of human resource development demands a long-term policy.

