

# HUMAN CAPITAL AND ECONOMIC GROWTH IN INDIA

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## ABSTRACT

This study discovered that there is a strong positive relationship between human capital and economic growth, other variables used in the study Gross capital formation, and secondary School enrolment, also affect the economic growth of India positively. This study found that secondary School enrolment has the greatest impact on India's GDP growth. This study concludes that to achieve long-term sustained economic growth policymakers should consider allocating the financial resources towards improving India's human capital, which can be achieved by increased healthcare expenditure and more funding towards education. The major findings of the study suggest human and physical capital is the major determinant of economic development in the long run, whereas, in the short run, the level of economic prosperity determines the level of human and physical capital, the volume of trade, and the fiscal space of the government. As a result, these countries have had to reprogram their debt to defer debt payments, while developed countries have become more stringent and selective in their lending. Loan approvals are controlled by powerful lenders and are not always dependent on developing countries' propensity to develop. Human capital matters more for such professionally marginalized groups since they are also susceptible to discrimination in the labor market based on other forms of capital. Policymakers in India have a wide window of opportunity for enhancing the human capital profile of the country's future workforce.

**Keywords:** Human Capital, physical capital, Public health expenditure, Economic growth, Out of pocket expenditure, Innovation

## INTRODUCTION

A country's economic growth depends on many factors like Natural resources, human resources, physical capital, technological development, and social and political factors. This paper is investigating the role of human capital in the economic growth of India. This study investigates the relationship between human capital and economic growth in India from 1995 to 2010; Healthcare expenditure has been used as a proxy variable for human capital. This research paper is based on multiple-line regression models and neo-classical Solow production functions. This study discovered that there is a strong positive relationship between human capital and economic growth, other variables used in the study Gross capital formation, and secondary School enrolment, also affect the economic growth of India positively.

This study found that secondary School enrolment has the greatest impact on India's GDP growth. This study concludes that to achieve long-term sustained economic growth policymakers should consider allocating

the financial resources towards improving India's human capital, which can be achieved by increased healthcare expenditure and more funding towards education. India's population can be a means of economic growth, not a hurdle. Human capital constitutes a significant ingredient of economic growth. As more and more countries are moving on the path of growth and development one needs to explore the contribution of human capital to economic growth. By considering health and education as two components of human capital, this article attempts to achieve three goals. First, it studies the state of health and education in both countries over the period 1970-2010, second, understands the role of public spending on health in economic growth, and finally studies the role of human capital, including health and health, and educational components to the economic growth of both countries.

## **THE IMPORTANCE OF THE CAPITAL FOR THE ECONOMIC DEVELOPMENT**

Economic development is defined as a goal that any country wants to achieve. The goal of economic development is to achieve a standard of living approximately equal to that of ordinary citizens in developed countries. Low GDP per capita in most countries of the world is related to several factors that reduce the quality of life for most people. The poorest countries have widespread malnutrition and chronically poor housing conditions. In the past, lack of access to basic food, shelter, and basic health care has threatened billions of lives. The goal of economic development is the alleviation of these dire conditions for billions of people. As previously mentioned capital is one of the crucial factors for economic development in national economies, and its shortage is especially pronounced in developing countries (DCs) where for creation of sufficient capital is necessary a reduction of the current consumption, something that is impossible for the poor countries because the consumption is already reduced to a subsistence minimum. In developed countries, however, the savings rate is around 20%, and unlike them, in poor countries, it is 4%, which is not enough even to build the necessary infrastructure, without which you cannot talk about development. The DCs attempted to compensate for the absence of domestic savings by borrowing from abroad, especially in the seventies and eighties of the last century. The rise in interest rates in the world, then the declining rates of economic growth, oil shocks, and rising distrust towards DCs led to the emergence of the debt crisis.

As a result, these countries have had to reprogram their debt to defer debt payments, while developed countries have become more stringent and selective in their lending. Loan approvals are controlled by powerful lenders and are not always dependent on developing countries' propensity to develop. In these countries, there is an irrational consumption of income, frequent savings in foreign banks (due to the underdevelopment and low reliability of the banking system), etc. Therefore, in the future, developing countries should emphasize the importance of capital accumulation and the need to raise its level, that is, capital accumulation. An increase in the degree of capital accumulation, since their development in many cases is related to industrialization and is directly related to capital accumulation.

**MACROECONOMIC PERFORMANCE AND EDUCATION**

Literature on economic growth models explores directly the quantitative relationship between investments in education and training and the level and growth of per capita GDP. There are a large number of studies, beginning with the classical growth models first developed in the 1950s, through to the so-called endogenous growth models that are still widely applied in many current empirical studies. Both data sets and econometric modelling techniques have developed extensively over recent years and many different model specifications have been proposed and empirically tested. This body of research can be divided up into several subsections. The so-called ‘growth accounting’ literature emphasizes the importance of measuring changes in the quality of labour, as indicated by improved qualifications and higher skills when trying to account for economic growth over the long term.

The influence of knowledge accumulation through research and development (R&D) has also been a major feature of this field of study.

**HUMAN CAPITAL**

The term ‘human capital’ entered the lexicon of economists much after the term ‘physical capital’, and it was only after a long time that the notion of investing in physical infrastructure was applied to human beings as well (Becker 1964; Schultz 1961). Formation of human capital came to be seen as ‘changes in persons that bring about skills and capabilities that make them able to act in new ways’ (Coleman 1988: 100). Likewise, human capital investments came to be seen as the “process of adding to society’s stock of efficiency units of labor, just as investment in machines increases the stock of physical capital” (Krueger 1968: 646-647). Generally, human capital has been defined as ‘resources, qualifications, skills, and knowledge that are available to and acquired by individuals to maximize their own employability’ (Caspi et al. 1998: 427). The transition from “human capital” to “health” took too long. It has generally been thought that an increase in life expectancy may increase the future value of education by generating more revenue over a longer working life (Kalemli-Ozcan et al., 1998; Bloom and Canning, 2003; Becker, 2007). Recognition of the indispensable role of health in improving educational and labor market outcomes has led to the need for lifelong health investments, especially in the first years of life (Currie 2008; Bleakley 2010; Conti et al. et al. et al. 2010). The potential of these early investments, including the promotion of healthy skills and behaviors, is now being recognized by international organizations actively advocating for the integration of “skills-based medical education” into “health-promoting schools”

**SIZE OF INDIA’S FUTURE WORKFORCE**

Moving away from the conventional wisdom that population growth is a matter of economic growth (Coale and Hoover, 1958), recent literature highlights the potentially positive bidirectional relationship between population age structure and economic growth, citing the success of East Asia as an example (Coale and Hoover, 1958). ). Bloom et al. 1999; Bloom et al. 2011; Prskavets et al. 2004; (Bloom et al.

2010). Declines in dependency ratio – the proportion of the population in the 0-14 and 65+ age groups (dependents) vis-à-vis those in the working-age group of 15-64 years – lead to economically favourable population age structures, and given supportive policies enhancing employability prospects, countries could experience higher growth. Dependency ratios initially decline using a ‘demographic transition’ – from high to low death and birth rates – leading to the ‘first demographic dividend’, which continues until the proportion of the working-age population reaches its peak. Post-peak, the dependency ratio starts going up once again, this time towards the tail-end (‘old-age dependency ratio’), with an increasing proportion of people in the 65+ age group (‘aging’). If people accumulate savings and assets for their retirement, and national income remains high, a ‘second dividend’ is possible sometime after the first, which could go on indefinitely (Mason, Lee 2006). However, whether it is the demographic transition or dividends later, human capital formation, especially early health, and education, play the most critical role. Several studies highlight the prominent role of human capital in economic growth in Asia Pacific (World Bank 1993; Page 1994; Dobson 2010). Thus, the discussion of demographic opportunities is both conceptually and practically irrelevant without simultaneously considering the state of human capital.

The Government of India is doing a lot in terms of skilling the existing workforce and those who would enter soon. However, without undermining the significance of these efforts, there are several limitations in the existing approach that this study points to:

- The focus is on skills – and that too, in a narrow technical/vocational sense, not even on soft skills – rather than on human capital formation, let alone during the highly critical initial stages, with almost no focus on health in this context.
- There is a continued dichotomy between educational and skill institutes, with negligible mainstreaming of skill development, in its broadest sense, in educational institutes.
- There is no action plan for preparing the workforce for the knowledge economy, with the entire focus being on the requirements of present-day industry and specific sectors. This has not only led to a limited time horizon in skilling efforts but also sector-specificity, which is too focused on low-/semi-skilled manufacturing jobs.

## DYNAMIC ECONOMY

A dynamic economy cannot sustain time-/sector-specific skills for long, and with rapidly changing contexts and demands of the economy, what we need to emphasize is the development of flexible skills which can help individuals shift between sectors and contexts (especially, when they migrate out of the country – both Skills policies also talk of filling the skills gaps in other countries, which is also one of their weaknesses, given bleak situation within the country). From this perspective, the concept of employability as occupational mobility, as we have used it here, holds special significance. It might be difficult to adopt this approach to the existing workforce or those who are poised to enter it in the immediate future, but we do have a wide window of opportunity vis-à-vis those who are still a decade or more away from it. Policymakers talk of making India a knowledge economy, but that would not happen until we start preparing the workforce for it today onwards, and

focus particularly on the 0-5 year age group of the present and the future, an age which holds the highest promise for the development of both cognitive and non-cognitive skills. We can have simultaneity in our efforts – there could be different strategies for different age and social groups. Given the challenges of aging, we need to think about employment opportunities not only for the current and future workforce but also for the past, at least in some regions. Similarly, when considering India's traditional division of labor, one should also think about job mobility for those previously involved in disadvantageous job roles.

## **EMPLOYMENT AND MANPOWER EFFICIENCY**

Affirmative action can employ creamy layers of reserved categories – creating large-scale resentment among others – but it does not focus even on their employability as such, thereby making them dependent on state support in the long term. Employability in the sense of occupational mobility matters even more for these groups. Even in terms of religious groups, there is a concentration of certain groups in particular sectors and levels of jobs, and that too needs to be considered from this perspective. Skilling programs cannot simply be based on the status quo (how do we meet the current demands of the industry given the current matrix) – they have to be sensitive to a dynamic vision for the economy and society at large. Human capital matters more for such professionally marginalized groups since they are also susceptible to discrimination in the labor market based on other forms of capital. Policymakers in India have a wide window of opportunity for enhancing the human capital profile of the country's future workforce. To do so, they will not only have to make adequate investments in early health and education but also focus on the efficiency and equity aspects of these investments down to the local level.

Public inefficiencies in health and education are also inequitable, and more specific inequities in these systems, lay the foundation for not just inequities in early human capital formation, but later-life employability prospects and socioeconomic inequalities. The well-off not only benefit more from public services, and suffer less from their inefficiencies, not least because they can afford world-class health and education that the private sector in India provides. Those who cannot afford them are resigned to poor quality public health and education, widening the gap in early human capital formation and employability prospects of India's future workforce. The identification process should be tripartite, including schools, parents, and children as well, since arbitrary decisions by teachers or parents can prove to be detrimental to their growth. Preschools also have a substantial role in minimizing inequities between children coming from varied socioeconomic backgrounds. There are both good and bad practices in different countries regarding development in childhood and later employment prospects.

## **CONCLUSION**

This study investigates the relationship between human capital and economic growth in India from 1995 to 2010. Healthcare expenditure has been used as a proxy variable for human capital. This research paper is based on multiple linear regression models and neo-classical Solow production functions. This study discovered that there is a strong positive relationship between human capital and economic growth, other variables used in

the study Gross capital formation, and secondary School enrolment, also affected the economic growth of India positively, which was expected. This study found that secondary School enrolment has the greatest impact on India's GDP growth. This study concludes that to achieve long-term sustained economic growth policymakers should consider allocating the financial resources towards improving India's human capital, which can be achieved by increased healthcare expenditure and also more funding towards education. India's population can be a means rather than an obstacle to economic growth. There are several areas for future research in this area. One of the research areas is the study of human capital and economic growth in rural and urban India.

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