ROLE OF HUMAN CAPITAL IN ECONOMIC GROWTH

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Abstract

Human capital is the most vital asset in any organization. Managing human capital helps organization maximize its impact on business; at the same time fulfilling the aspirations of its employees. With the increase in intangible value, the importance of human capital management has become even more relevant. It is of course a daunting task for organizations to attract best talent and understanding their motivational needs. Three dimensions of human development index (HDI), i.e., income, education and health contribute to human welfare and are adjusted for inequalities in attainments across people. There is growing concern over these persistent inequalities, especially, in light of government emphasis on inclusive growth. In conventional measures of economic growth, health and education's contribution is measured essentially by the costs of producing the outcomes, i.e., expenditures on schools and medical facilities The general finding is that individuals with more education tend to have better employment opportunities, greater earnings, and produce more output than those who are less educated. These findings provide a strong rationale for government and households to invest substantial portions of their resources in education, with the expectation that higher benefits will accrue over time. In this context, education is deemed an investment, equipping individuals with knowledge and skills that improve their employability and productive capacities, thereby leading to higher earnings in the future. The findings of this paper suggest that human development outcomes may significantly mask the performance of individual states.

Key words: India, Impact of human capital, Economic growth

Introduction

In recent times, particularly with globalisation and liberalization of the Indian economy and its gradual and halting integration with the world economy, the human capital function in India has got the importance that it has in the developed world, in particular. Perhaps, due to the abundant manpower available, it is possible to give impetus to economic growth by providing equal opportunities to acquire education, finance, health services etc. Human capital plays a critical role in economic growth and poverty reduction. From a macroeconomic perspective, the accumulation of human capital improves labor productivity; facilitates technological innovations; increases returns to capital; and makes growth more sustainable, which, in turn, supports poverty reduction. Thus, human capital is regarded at the macro level as a key factor of production in the economy-wide production function. From a microeconomic perspective, education increases the probability of being employed in the labor market and improves earning capacity. Thus, at the micro level, human capital is considered the component of education that contributes to an individual's labor productivity and earnings while being an important component of firm production. In other words, human capital refers to the ability and efficiency of people to transform raw materials and capital into goods and services, and the consensus is that these skills can be learned through the educational system.

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The concept of human development centers the notion that human welfare depends on various dimensions. Particular attention has been given to using measures of health and education as welfare indicators in addition to GDP per capita..In view of the above, this paper presents a methodology and provides estimates for the Of course, life expectancy at birth is perhaps the most comprehensive, depending as it does on the current age specifice mortality rates for all age groups. Educational indicators are stock measures. Stock measures of educational indicators include the literacy of the population, the average number of years of education of the population and the extent of educational attainment by level. These measures are appropriate for assessing the accumulated achievement of a country or for estimating the contribution of education to economic performance included in the HDI. India, with a global HDI value of 0.504, falls in the category of countries with 'Medium Human Development'. It falls short of the world average, which is 0.624 (UNDP, 2010; p. 155). The loss in global HDI due to inequality is much higher in India (32 percent) than in the world as a whole (22 percent) (UNDP, 2010; p. 155).The UNDP's Human Development Index accounts for a country's relative standing on three factors:

1) Health, measured by years of life expectancy at birth;
2) Education, measured by literacy rate and education index.
3) Income, measured by GDP per capita in US$ at Purchasing Power Parity (PPP)

The most recent UNDP human Development Report 2011 shows that India's HDI rank is 134 and GDI rank is 114 and HDI value is 0.547.

Objective, Sample Selection, Methodology and findings

The present study focuses on the role of Human Capital in the emerging economies and to know about the changing pattern of HDI in India and India's achievements in the formation of human capital and its impact on economic growth. Secondry data has been analysed.

The data in Table 1 calculates the India's HDI trends based on consistent time series data. The HDI is a summary measure for assessing long-term progress in three basic dimensions of human development: a long and healthy life, access to knowledge and a decent standard of living.

As in the 2011 HDR a long and healthy life is measured by life expectancy, access to knowledge is measured by:

i) mean years of adult education, which is the average number of years of education received in a life-time by people aged 25 years and older; and

ii) expected years of schooling for children of school-entrance age, which is the total number of years of schooling a child of school-entrance age can expect to receive if prevailing patterns of age-specific enrolment rates stay the same throughout the child's life.

Standard of living is measured by Gross National Income (GNI) per capita. To allow for assessment of progress in HDIs, the 2011 report includes recalculated HDIs from 1980 to 2011.

Table 2 & 3 calculate the HDI and its dimensions in India's states. This paper uses the estimate of Gross National Income per capita (PPPUS$), Life expectancy at birth, mean years of schooling, Literacy rate, School life Expectancy for India's states from the HDR 2011. The mean years of schooling of the adult population (aged 25 years and above) are estimated using the NSS data on educational status and training in India. Estimates of school life expectancy are made based on the NSS unit record data on education in India.

Table 1: India's HDI trends based on consistent time series data, new component indicators and new methodology

Years	Life expectancy at birth	Expected years of schooling	Means years of schooling	GNI per capita (2005 PPP$)	HDI value
1980	55.3	6.5	1.9	896	0.344
1985	57.0	7.3	2.4	1,043	0.380
1990	58.3	7.7	3.0	1,229	0.410
1995	59.8	8.3	3.3	1,453	0.437
2000	61.6	8.4	3.6	1,747	0.461
2005	63.3	9.9	4.0	2,280	0.504
2010	65.1	10.3	4.4	3,248	0.542
2011	65.4	10.3	4.4	3,468	0.547

Source: Human Development Report 2011

Analysis of the data

India's HDI value for 2011 is 0.547—in the medium human development category -- positioning the country at 134 out of 187 countries and territories. Between 1980 and 2011, India's HDI value increased from 0.344 to 0.547, an increase of 59.0 per cent or average annual increase of about 1.5 per cent. The rank of India's HDI for 2010 based on data available in 2011 and methods used in 2011 is 134 out of187 countries. In the 2010 HDR, India was ranked 119 out of 169 countries. Between 1980 and 2011, India's life expectancy at birth increased by 10.1 years, mean years of schooling increased by 2.5 years and expected years of schooling increased by 3.9 years. India's GNI per capita increased by about 287.0 percent between 1980 and 2011.

Table 2: HDI and its dimensions: Indian states

State	HDI	Rank	GDP	State	HDI	Rank	GDP
Kerala	0.920	1	1,288	West Bengal	0.625	19	902
Chandigarh	0.860	2	3,668	Gujarat	0.621	20	1,747
Lakshadweep	0.796	3	1,406	Dadra & Nagar Haveli	0.618	21	1,050
Mizoram	0.790	4	1,000	Arunachal Pradesh	0.617	22	1,124
Delhi	0.789	5	2,746	Tripura	0.608	23	837
Goa	0.779	6	2,888	J & K	0.601	24	719
Nagaland	0.770	7	466	Karnataka	0.600	25	1,300
Andaman & Nicobar	0.766	8	2,132	Meghalaya	0.585	26	1,053
Daman & Diu	0.754	9	947	Andhra Pradesh	0.572	27	1,416
Pondicharry	0.748	10	1,913	Rajasthan	0.537	28	869
Manipur	0.707	11	646	Assam	0.534	29	662
Maharashtra	0.689	12	1,818	Chattisgarh	0.516	30	959
Sikkim	0.684	13	1,065	Jharkhand	0.513	31	648
Himachal Pradesh	0.681	14	1,273	Uttar Pradesh	0.490	32	567
Punjab	0.679	15	1,468	Madhya Pradesh	0.488	33	593
Tamilnadu	0.675	16	1,588	Orissa	0.452	34	803
Haryana	0.644	17	2,009	Bihar	0.449	35	436
Uttarakhand	0.628	18	1,486				

Source- UNDP India Report 2011

Analysis of the data

The Human Development Index (HDI) achievement of states in India shows that the HDI is the highest for Kerala (0.920) and the lowest for Bihar (0.449). Bihar (0.449) is followed by Orissa (0.452), Madhya Pradesh (0.488) and Uttar Pradesh (0.490). Major states in "Medium HDI" are Punjab, Himachal Pradesh, Haryana, Maharashtra, Tamil Nadu, Karnataka, Gujarat, West Bengal and Uttarakhand. Some other states, namely Andhra Pradesh, Assam, Rajasthan, Jharkhand, and Chhattisgarh also fall in the 'Low HDI' category.

Table 3: Key indicators: States and All-India

State	PPP income per capita	Life Expectancy at birth	Mean years of schooling	Literacy rate	School life Expectancy
Andra Pradesh	3398.76	64.4	3.06	67.7	9.66
Assam	2883.44	58.9	3.96	73.2	9.54
Bihar	2161.80	61.6	2.97	63.8	9.58
Chhatisgarh	2497.00	58.0	3.39	71.0	9.31
Gujarat	3782.87	64.1	4.54	79.3	8.79
Haryana	4574.51	66.2	4.74	76.6	9.68
H.P	4168.39	67.0	4.88	83.8	11.05
Jharkhand	2516.41	58.0	3.32	67.6	9.68
Karnataka	3269.76	65.3	3.95	75.6	9.75
Kerala	5262.89	74.0	6.19	93.9	11.33
M.P	2673.73	58.0	3.47	70.6	8.95
Maharashtra	3913.14	67.2	5.12	82.9	9.86
Orissa	2185.84	59.6	3.34	73.5	8.74
Punjab	4885.12	69.4	5.12	76.7	9.80
Rajasthan	3289.27	62.0	2.96	67.1	9.19
Tamilnadu	3835.05	66.2	4.79	80.3	10.57
U.P	2910.58	60.0	3.56	69.7	9.19
Uttrakhand	3536.13	60.0	4.97	79.6	10.23
West Bengal	3414.08	64.9	4.36	77.1	8.87
India	3337.33	63.5	4.10	62.8	9.62

Source- UNDP India Report 2011

Analysis of the data

Income indicates the monetary dimension of human well-being. PPP income per capita of Kerala is highest (5262.89) on first rank, then followed by Punjab (4885.12) and Bihar (2161.80) ranks lowest. Literacy rate(in %) of Kerala is highest (93.9%), followed by H.P (83.8%) and Bihar's (63.8%) ranks again lowest. All states with the exception of economically poorer states of Bihar, Madhya Pradesh, Rajasthan, Orissa and Uttar Pradesh (including the newly formed states of Chhattisgarh, Jharkhand, and Uttarakhand) and Assam fare as good as or better than the nation as a whole in the sub-index of the education dimension. Kerala has done exceptionally well on education in comparison with remaining states. In Life expectancy at birth, Kerala (74.0%) ranks first, followed by Punjab (69.4%), and Chhatisgarh, Jharkhand (58.0%) rank lowest.

Rural/Urban divide
Poverty in rural areas is more pronounced across the region on all indices. More than 75% of the region's poor live in rural areas. Hence a country like India (which has very recently seen an official revision of overall poverty rates from 28 % to about 37.5% on the grounds of including Human Development Index).

Regions of Disparity
Due to various socio-economic reasons, poverty is concentrated in specific regions of each of the countries. In India, the northern and eastern regions are relatively poorer as compared to the other regions. The per capita GDP of Uttar Pradesh andBihar (two states representing 25% of the Indian population) is less than half the national average and only a third of that of the seven richest states.

Exclusions of Caste, Ethnicity and Religion
Poverty in the region largely overlaps with caste and ethnic identity. Hence in India, the dalits, tribals and the Muslims (the largest religious minority) together constitute 40% of the total population with roughly a majority of them coming under poverty line. As per official data out of 2.8 million out of school children in India, 68% are from the three communities of dalits, tribals and Muslims as against their share of 40% in total population.

Disparities of Gender
In many parts of South Asia, gender discrimination begins before birth and continues throughout women's lives. However, women and girls in India continue to face discrimination in many spheres, including in the family and community, in employment, in political and public life, and in law. Due to sheer neglect and discrimination, about 42.6 million women in India are termed as 'missing'. However, things are gradually changing; for instance, many states have started upto 50% reservation for women in elections to local bodies.

Poor Governance and Corruption
India, the blame is always laid at the doors of early Socialist centralized state and its 'License-quota-permit Raj', the opening of economy has resulted in some of the worst cases of corruption, where both the state and large-scale corporations were found to be complicit.

Human development: State and Civil Society
Social protection measures in the region have been centered round protection against various kinds of vulnerabilities for the poor and as well as measures to eradicate poverty in general. In this regard, it is critical to look at the trends in which different states have pursued policies. For example, social safety nets in India mostly cater to just about 8% of the total workforce, while over 90% of the workforce in India works in the steady expanding informal sector.

Human Development -- a Right: Right to Work and Mahatma Gandhi National Rural Employment Guarantee Act in India
India has set an example in social protection measures: its National Rural Employment Guarantee Act (NREGA) now known as Mahatma Gandhi National Rural Employment Guarantee Scheme (MNREGS). NREGA was passed as an act in 2005

Right to Information: A Tool for Citizen's Empowerment
MNREGS is just one example of a state pressured into acting by civil society groups. Key victory was the passage of the Right to Information (RTI) Act.

Conclusion

The general finding is that individuals with more education tend to have better employment opportunities, greater earnings, and produce more output than those who are less educated. Government investment in both education and health may be particularly important as there are indirect benefits of such investments. Child illness and malnutrition inhibit attendance and performance in school. There are long effects of educating one generation on the welfare of their future children. HDI estimates for Indian states facilitate quantification of the potential loss due to inequality with respect to access to education and health. The paper briefly reviews the impact of inequalities within the states on human development outcomes of individual states. In view of the above, this paper presents a methodology and provides estimates for the India's HDI value for 2011 is 0.547—in the medium human development category—positioning the country at 134 out of 187 countries and territories. Between 1980 and 2011, India's HDI value increased from 0.344 to 0.547, an increase of 59.0 per cent or average annual increase of about 1.5 per cent. The rank of India's HDI for 2010 based on data available in 2011 and methods used in 2011 is 134 out of 187 countries. In the 2010 HDR, India was ranked 119 out of 169 countries. The Government of India (GoI) has been concerned about rising inequalities and uneven distribution of the benefits of growth. Accordingly, the thrust of the 11th Five-Year Plan (2007-12) was on inclusive growth. The forthcoming 12th Five-Year Plan is expected to deepen and sharpen the focus on inequalities. This paper suggests that human development outcomes may significantly mask the performance of individual states.

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