

## HUMAN CAPITAL AND ECONOMIC GROWTH

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**Abstract :** With time, knowledge economy has been gaining an importance all over the world. Technological evolution is observed leading everywhere to maintain the competitive advantage. This can never be possible without the high level of competence of the people involved in it. Where the people employed are being considered valuable assets and human capital, their role plays the leading role in the organizational success. Human capital is a mixture of two terms human and capital. In economics capital is the factor of production which yields productivity. In the same ways the human factor is also a factor of production known as entrepreneur or labour which adds to the production volume. Without human involvement neither can productive activities be carried not a business be led. The most successful nations have their skilled and talented labour force as a result of huge investment made on their training and quality enhancement. Mere taking work from the labour considering them as human is of no use today but they should be considered as assets and their value should be appreciated by investing for their education and knowledge expansion. Such accumulation of human capital through learning activities significantly influences many sectors. In the macroscopic aspects, many researchers present that accumulation of one's human capital on education and training investment largely affects the growth of an individual's wage, firms' productivity, and national economy (Denison, 1962; Schultz, 1961). Human capital is lined to the production orientation perspective of human capital. According to Romer, the human Capital is a 'Fundamental source of economic productivity'. It is the investment which makes people to increase their productivity themselves. Therefore the term human capital is very crucial for the economic growth and development. This paper throws light on human capital role in the economic growth of an economy backed with skill-up gradation and approaches of their measurement.

**Keywords:** Human capital, educational investment, Skill accumulation, productivity.

### INTRODUCTION

#### **Concept of Human Capital:**

Every human resource has value contributed for any productive work they are employed in. but it depends upon the skills and competencies they have to perform at work place. The need of human capital emerges here as the skills and the competencies of any person are developed and accumulated as a productive capital over a period of time by means of education, training and development. According to Boldizzoni (2008) the term human capital is a mixture of two words viz 'Human' and 'Capital'. Where capital is a factor of production which adds value to the production and has derived demand. It is the active factor of production. Considering human role in the production is of two ways. As an entrepreneur and as a labour. Where labor is the factor which adds more value in real production. Therefore considering labour as capital will certainly be useful for firms to add value provided investment done in education and training programmed to their labor force. The people are becoming valuable assets and can be recognized within a framework of human capital for the better efficiency proving the era of knowledge economy.

It is the common practice to increase physical assets and productive capacity by the organizations. In a few cases the same practice they do follow to consider their labour force as capital adding value to the entire organization. In 1950's the role of human capital was confined to only raising wages along with raising factor income of other factors of production. According to Woodhall and Romer, the investment in human capital is more effective than investments in physical assets. As the acquired knowledge of an individual can easily be to product produced and services rendered. It helps to increase the quality goods and services which brings growth to the business. It should be noted that the knowledge and learning are at the core of the human capital and it is only possible by increasing the skills of the labour employed.

### **OBJECTIVE OF STUDY:**

- To understand the role of human capital in the economic growth of a nation
- To mention the need of investments to be done for skill up-gradation of labour
- To review many approaches of measuring Human capital to prove efficiency.

### **METHODOLOGY:**

The study is based on the secondary data collected from various books, journals, articles, research publications, statistical survey and web links for its source of information. It is purely evaluative study.

### **SIGNIFICANCE OF THE STUDY:**

This paper is an attempt to examine the role of human capital in the growth of an economy and the need of investments to be done for the development of human employed in the firms and organization. The studies have revealed that the accumulation of knowledge and training makes individuals efficient and transfers to the quality to the goods and services they provide.

### **HUMAN CAPITAL AND PRODUCTIVITY:**

According to Lucas and Rosen, the education provided to the workers affects their productivity at the workplace positively. Their contribution not only increases in production volumes but in they prove as catalyst serving defect free and qualitative services. The constant learning through skilled programmes enables them to increase their potentials and energy of work to suit the profession or work they are put in. Considering human as capital not only results in efficiency but also helps in measuring their performance useful to reward them or to improve them further. The important viewpoint on human capital is that it stresses knowledge and skills obtained through educational activities and vocational education. It makes them to learn with their learning aptitude. It should not be ignored that the human capital is a fundamental source of economic activity. It results in economic output. Rather it helps to create personal, social and economic well-being. Knowledge provided to the labour work as an economic agent as the same is not only retained with them as a behavior but is transferred to others forms them. It is like accumulating stock of learning's. According to Lepak & snell (1999) the potential of human capital is closely linked to core competence and competitiveness of organization. It brings a remarkable impact on the organization. Even to bring good socio-political environment, the link between society and human capital should be kept. By economic theory it has always been considered as the source of economic growth. Every organization demand educated and skilled workers as they believe that such workers easily get adapted with innovation and creative work. If not hired skilled labour, organizations prefer to turn them skilled by investing on them through training programmes.

Human capital is represented by the shares of intermediate and highly-skilled workers in the work force of a sector. The manufacturing sectors can be divided into three classes of sectors: low-skill, medium-skill and high-skill sectors. The estimation results show that both intermediate and highly-skilled labour have a positive effect on the sectoral labour productivity level, although the effect is only significant for highly-skilled labour. Moreover, there are indications of underinvestment of human capital in some manufacturing sectors. These sectors could improve their competitive position by raising the employment shares of intermediate and highly-skilled labour. Finally, intermediate- skilled labour has a significantly positive effect on the growth in sectoral labour productivity (Frank 1996).

### **Human Capital and Measurement:**

According to the conventional measurement of human capital there are three ways of measuring

human capital viz. Output based, Cost based and Income based approach. Under Output-based approach the relationship between economic growth and human capital is analyzed through school enrollments rate. But it is not as effective as the mere enrollment of individual does not guarantee the efficiency until they participate in the productive activities. The institutions like OECD (Organization for Economic Cooperation and Development) utilizes International Adult Literacy Survey, the ratio between literate adults and total adults, to measure the stock of human capital.

Cost-based approach on measuring the stock of human capital through summing costs invested for human. Income based approach considers the income obtained by an individual from the labour market.

In the debate of how to measure human capital in the contemporary time, it is necessary that the advanced measurement of human capital considers the concept of 'human development', assuming that the concept of development includes both of quantitative growth and qualitative progress. With referring to the concept of human development, it is necessary that the new approach of human capital measurement needs to pay more attention to social capital. As mentioned, an individual's social capital is closely linked to his/her human capital focused on the stock of knowledge. Considering that the core of the social capital is based on the networking among constituents, it is possible that the networking component of social capital contributes to the increase of human capital owing to the characteristics of that: transportable, and shareable (OECD work Forum)

### **Human Capital index:**

It is the new measure of capturing and tracking state of human capital development around the world. It has three key features. The first is that it is not one dimensional but is different for different stakeholders. In business human capital is the economic value of employed hired. It is a driver of economic growth. Traditionally it was confined to only educational investments but today the dimensions like health and cognitivity has also been considered while defining human capital. Second key feature of the human capital index is long term approach of it. If considering it in long run is avoided then the population potentials is sure to be wasted.

All will be futile. In third feature, human capital looked form individual life course. There are four pillars of human capital Viz. Education, Health, Workforce and Employment and Environment. They play an important role in structuring human capital index as an indicator of economic growth of participating countries. This index shows the impact of education, health, employability and environment on the workers and their productivity. It is assumed that the investment done on all these areas certainly makes labor force perfect and highly efficient.



In the world many countries have been using Human Capital Index. Switzerland leads in this index followed by Denmark, Sweden, Norway and Finland as they score high in all the four pillars stated above. India ranks 78th in this index with negative scores in the four pillar ranking 63rd in Education, 112 in

Health, 49 in Workforce and 67th in Environment (Human Capital Report 2013)

**CONCLUSION:**

It is essential to consider labour force as capital which increases its productivity with some initiatives of training programmes. All over the world human resources are considered as capital and they are measured in terms of cost and income. The develop countries have proved the human capital index positive by supporting four pillars of the index stated earlier. But in our country it is not satisfactory in ranks when we are remarked with high young population to be used in the production process. The steps should be taken to employ this population force more qualitatively. For this various vocational and training programmes in various sectors should be conducted by the government.

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