

3.16. Human Capital and Economic Development

Capital plays the most crucial role in the process of economic development of any economy—developed or underdeveloped. Capital is mainly of two types—physical capital and human capital. Human capital, like physical capital, is equally important to promote economic development. It is also called human resource. **Human capital refers to labourers' education, training, experience, health condition, etc., which raise the productivity of labour.** So, any investment with a view to raising these qualities of labour may be called human capital formation. The efficiency, intelligence and productivity of a human being can be raised by spending more on his education, training and health. So, the amount of money spent on such heads is the investment in human capital. It may be used in two senses. In the wider sense, investment in human capital means expenditure on health, education and social services in general ; and in its narrower sense, it implies expenditure on education and training.

Recent studies show that human capital played a crucial role in the economic development of the Western developed economies. Economists like Schultz, Kuznets and others have shown that one of the main reasons behind the rapid economic development of the U. S. A. during the second half of the twentieth century was the increased expenditure by the US government on education.

According to them, return from a dollar spent on education is much higher than the return from same investment on transport or industry or irrigation. Galbraith also shares the same opinion.

That human capital plays a vital role in the economic development of a country was also mentioned by Adam Smith, and later by Veblen. Modern economists also think that the slow growth in the less developed countries is largely due to lack of investment in human capital in these countries.

Schultz has mentioned five ways in which human capital can be formed, i.e., human resources can be developed. In brief, these are : (i) Measures to raise health conditions, (ii) Apprenticeship in different firms and on-the-job training, (iii) Expansion of primary, secondary and higher education, (iv) Extension of adult education programme, (v) Increase in mobility among the workers. With this list, we may add that human capital may be raised through the import of technical knowledge from abroad.

Human capital, or human resource as it is now popularly called, can help in economic development in the following ways :

(i) Investment in human capital will raise the productivity of labour at an amazing degree. It will thus raise per capita output.

(ii) In the underdeveloped countries, the huge amount of natural resources remain unutilised due to lack of skill. Investment in human capital will help to utilise natural resources and thereby to break the vicious circle of poverty in less developed economies.

(iii) In the developing economies, the supply of entrepreneurial ability is limited. In such economies, the formation of entrepreneurial skill is very important. An efficient entrepreneurial class will emerge if there is an improvement in human capital. This class will come forward to take up new ventures. This will lead to industrial development in such economies.

(iv) Development in human capital will increase labour mobility, remove traditional ideas and make workers more dynamic and so on. All these are essential for economic development.

(v) Investment in human capital will also help in the formation of managerial skill. An underdeveloped economy badly needs managerial skill which gives the leadership and takes the initiative in an industrial organisation. Formation of managerial skill thus helps in economic development of a backward economy.

Thus, human capital formation or development of human resource can make an important contribution to economic development. However, development of human resource in an underdeveloped economy is not an easy task. Most of the underdeveloped countries have a vast population. But the quality of population is very low. Labour is unskilled due to lack of proper education and training. Further, they are weak and have less stamina due to lack of better food, health facilities, etc. Again, labourers in underdeveloped countries are generally immobile. More often than not, profession of a labour is determined by customs, taboos, religious belief, etc., and not by economic factors. Further, quite a large portion of the population believe in fate. There is no commercial attitude among them. All these factors act as obstacles to economic development. To remove these obstacles and thereby to improve the quality of labour is not really an easy task. These are some practical problems to human capital formation in

underdeveloped countries. A conscious and deliberate effort should be taken by the government and different non-government social organisations to develop human capital in underdeveloped countries.

Further, there are theoretical problems related to human capital formation. For example, how is the amount of human capital to be calculated? In which particular stage of economic development is human capital necessary? Again, what should be the optimum rate of human capital formation? These are some of the questions related to human capital formation which cannot be easily answered in specific terms. But these are only theoretical questions. They do not undermine the positive contribution of human capital to raise productivity and thus to foster economic growth.
