

Human capital Development and Economic Growth in India

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ABSTRACT

Investment in Human capital is considered as one of most important pillars of economic growth in any economy. The purpose of the paper is to measures the effects of human capital on the economic growth of Indian economy. The measurement of human capital as the determinant of economic growth is analyzed and measured under the headings of education and health component of human capital. In order to measure the effect of the human capital on the growth of Indian economy we used three regressions models. The first regression model used captures the relation of education human capital with the growth. Model second is used to measure the health human capital and economic growth. Finally model third is used to measure the human capital and growth. In the third model both education and health human capitals are used as regressors for growth. The estimated coefficients revealed that the stock of education human capital contributes to economic growth positively and notably. The study concludes that investment in education increases the enrolment ratios and enrolment ratios affect the economy in positive and in significant way. Similarly it was found that there exists a positive relationship between health human capital and economic growth as well. The study explores revealed that investment in health increases the life expectancy that contributes to economic growth in remarkable and positive way. The Results thus confirmed the literature evidence that human capital has a remarkable impact on the economic growth of India.

1. Introduction

In an international perspective the major determinants of economic development as per the average economist, or the World Bank, is likely to point to the important role of human capital formation (Enrich, 1996). Human capital in nature encompasses knowledge, information, ideas, skills, and health of individuals. Technology may be the driver of present day modern economic growth especially for the science base sector and advanced economies of the world, but human capital is certainly the energy required to drive the vehicle of modern economic growth (Becker, 2002). Various growth theorists have various approaches to human capital as an important component of economic development. Both theoretical and empirical researches have proved the fact that investment in human capital formation of an economy plays a vital role in improving the efficiency and productivity of human beings, and through them the various factors that complement and supplement the production process (Barro and Salai-i-Martin, 1995). However what is still debatable is what factors should be considered as components of human capital. The exclusion and inclusion of different components of the human capital to relate it empirically with other variables such as growth makes it more complex and changing concept. Based on the development models and role of human capital India after independence also struggling for increasing the human capital particularly education component and health component.

Given the features of Indian economy this study empirically measures the effects of human capital development on the economic growth of Indian Economy. From the available literature right from Harrod Domar model till cross country studies which used Cobb-Douglas production function one can conclude that to estimate the effect of human capital on growth

either education human capital or health human capital as independent or both as independent and more weightage either to education or health proxy variables were attached. For the present study the effect is measured under three different sub-headings. First the model is laid down to estimate only the effect of education human capital second the methodology is set to measure only the effect of health human capital and third the effect of both on growth is measured. The whole methodology used is extension version of methodology used by Neagu to capture the effect of human capital on Romania economy (Neagu, 2012). The whole paper is divided into four sections. Section first is about introduction and review of related studies, section second provides the data and methodology. Section third provides the results and discussion and section fourth provides summary conclusion.

1.2 Review of related studies

The concept of human capital is not a new one. Perhaps the first attempt to define and measure what we now call human capital was Sir William Petty. He believed that labour was the „father of wealth“ and that a measure of its value should be included in the estimation of national wealth (Petty, 1690). Cantillon, was more interested in defining the costs of maintaining a slave and his offspring than in estimating the value created by human capital (Cantillon, 1755). Smith's principal aim was not to measure the „value of the stock of human capital“ but to understand the reasons why there are different remunerations between different occupations Smith included the acquired and useful abilities of all the inhabitants or members of the society under the idea of capital (Smith, 1776). Mill argues that because acquired abilities are costly and make men more productive, they must be treated as capital, thus taking up a position similar to that of Adam Smith (J.S. Mill,

