

Role of human capital in economic development

Countries



Introduction Our research topic is to analyze the relationship between human capital and economic growth. Economic growths important determinant are physical capital, labor and human capital. But from the recent trend of world economic growth, we found that human capital is playing a key role by taking the place of material capital and labor. Human capital is intimately related to growth as it increases the nation's capacity to produce goods and services. It also creates more Job opportunities and lifts the living standards of a country through increase in income levels.

Human apital deals with individuals who learn special skills and knowledge trougheducationat school, training and experience in the labor market (Barro et al, 2000). However, Economic growth refers to the increase in the amount of the goods and services produced by an economy over time Cones, 1996). As a result of their skills and education, productivity level would increase because educated workers would work at a faster pace than less educated workers Human capital refers to the knowledge and skills embodied in people.

It is widely recognized that some types of human capital are obtained through experience or nteractions with others and with formal education. Human capital is intimately related to the economic growth. Masses believe that capital means a bank account, stock or factory plants in the industrial area. These are also a type of capital that they are assets that increase income and other useful outputs over long periods of time. But such tangible forms of capital are not the only type of capital.

There is another very important type of capital known as human capital. It implies to Schooling, a computer training course, expenditures on medical care, and lectures on the virtues of punctuality, expertise and honesty. It is because these factors are also contributing to raise earnings, improve health, or overall increasing the economic growth rate. Therefore, economists regard spending on training, medical care, education and so on as investments in human capital.

They are called human capital because people cannot be separated from their knowledge, skills, health, or values in the way they can be separated from their financial and physical assets. The notion of human capital arose out of the awareness that physical capital alone was not enough to explain long term growth. Many social indicators such as educational enrolments and life expectancy became combined in a common term: human capital. Often, human capital is implicitly referred to as formal and informal education.

Yet, it can also contain factors such as the costs of raising children, health costs, and ability. Significance Economic growth depends on many factors such as the quantity and quality of education, how education can impact on fertility rate, government policies to sustain incentives for human capital, a reduction in the cost of technology adoption and increase expenditure on education. Education and other aspects of human capital is important to economic growth because more educated individuals tend to have higher employment rate and earnings and produce more output relative to those who are less educated.

Education is considered as a positive investment that allows individuals to be equipped with knowledge and skills that can improve their employability and productive capacities that would lead to higher earnings in the future and hence, economic growth. Moreover, it has shown that it is not only the amount of formal education that matters, but also that the type of knowledge possessed by labor in a region also plays a key role in determining the level of economic activity.

There are various type of education having there own effect on the economic growth such as skilled based education primary education specialized education higher education and education to develop entrepreneur skills, the more the entrepreneurs are in a country, more the business will flourish in that country. As a result, the countrys economy will rapidly grow. The continuing growth in per capita incomes of many countries during the nineteenth and twentieth centuries is partly due to the expansion of scientific and echnical knowledge that raises the productivity of labor and other inputs in production.

And the increasing reliance of industry on sophisticated knowledge greatly enhances the value of education, technical schooling, on-the-job training, and other human capital. New technological advances clearly are of little value to countries that have very few skilled workers who know how to use them. Investment in human capital is long term as compare to the investment on physical capital. It is also a continuous process unlike investment on physical capital. But the outcome of human capital is much greater than other investment. In past decades the healthy human capital countries grew faster than the one where these factors were missing.

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Economic growth closely depends on the synergies between new knowledge and human capital, which is why large increases in education and training have accompanied major advances in technological knowledge in all countries that have achieved significant economic growth. The outstanding economic records of Japan, Taiwan, and other Asian economies in recent decades dramatically illustrate the importance of human capital to growth. We are going to support the positive correlation of human capital and economic development by reference on some previous conducted researches.

Maudos, Pastor and Serrano aimed to find the role of human capital in the productivity gains of OECD countries from 1965-1990. Their research supports the correlation of human capital and economic growth. Their findings suggest a positive link between human capital and economic development. They concluded that human capital not only is an additional input in the production formula but also is a catalyst for technical change. Thus, the estimation of a stochastic translog production function shows a statistically significant product elasticity of human capital, and non-parametric techniques confirm its significance as input.

Xu, Qi came to conclusion in the research conducted in 2008 that human capital is contributing towards Total factor production (TFP), which is contributes directly to economic development. They concluded that human capital had lower impact in technologically strong provinces compared technologically backward provinces. We have seen that human capital have an impact on the growth rate. But there is various composition of human

capital. Various composition of human capital has different impact on the economic growth.