

Government Arts College – Autonomous, Coimbatore -18
Department of Economics: II Master of Business Economics: VI SEMESTER
Economics of Human Resources: 18 MEC 43C

CLASS NOTES

Unit: 1 Human resources: meaning and definitions – Importance – theory of investment in human capital - return of investment – the rate of return approach – Human development index – HRD report.

Human resources:

The word, ‘Human resource’ was introduced by the American economist, John R Commons, in his book, ‘ the distribution of wealth’. It was published in 1893.

meaning: Personnel considered as asset in business or organization for their skill and abilities are called Human resources .

Definitions: Human resources is a set of the people, who make up the work force of an organization, business sector, industry or economy. Human capital refers to the knowledge and skill of the individuals.

Organisation for Economic Co-operation and Development (OECD) has this definition.

“the knowledge, skills, competencies and other attributes embodied in individuals or groups of individuals acquired during their life and used to produce goods, services or ideas in market circumstances”.

Human capital has been defined by Goode. Human capital can be defined as the knowledge,

Importance:

1. **Structural unemployment.** Inappropriate human capital will find it difficult to get an employment. Another cause for unemployment is the rapid deindustrialisation.
2. **Quality of employment.** The divergence between low-skilled, low-paid temporary jobs and High-skilled and creative workers are increasing. It gives a lot of opportunities for self-employed and contract labourers.
3. **Economic growth and productivity.** Long-term economic growth depends on human capital. It leads to increased labour productivity and economic growth.
4. **Human capital flight.** Globalisation facilitates a greater mobility of labour. It may cause adverse effects on low income developing countries.
5. **Limited raw materials.** Economic growth is also determined by on high-skilled, innovative workers. They will add values to raw materials in the production and exchange.
6. **Sustainability** The economic growth with all human and natural resources should guarantee a sustainable development for the generations to come.

Theory of investment in human capital

This theory states that knowledge and skill are human **capital**. **The** investment in **human capital** leads to an increase in both economic output and workers' earnings. This theory was propounded by **Schultz** This **theory** encourages individuals to invest in themselves. An investment in human capital is considered as an effective method to reduce the poverty.

Another important theory was by Becker. This postulates a direct relationship between investment in human capital and Earning capacity of individuals. Higher the investment, the higher would be the earning of the individuals, that will lift the poor from their poverty.

return of investment.

The investment in education and health are part of Public expenditure. The public expenditure is of four types, Revenue expenditure, Capital expenditure, Developmental expenditure and Non developmental expenditure. Of these various expenditure, Capital expenditure is done on long term investment in land and buildings, plant and machinery. The investment on health and education will not result in instant returns. It will get a returns in the long run. And the measurement of this return is difficult.

The rate of return approach

The rate of return approach considers the cost, earnings and rates of return. The one to one , cost to earnings in human capital is very difficult to measure. And more over, it is a long term process with lot of complexities. The on-job training and the cost towards it also generates return to an organization.

Human development index

United nations development programme UNDP publishes a report on human development in its member countrie. There are 189 countries as its members. This index Is based on certain criteria. Health and education standards are measured for the construction of this index. The United Nations has started this index in 1990.

Human development index measures the health, education and standard of living of a nation. It measures by taking into account, the development in Education, Life expectancy and Per capital income.

Human Development Index report

The latest index for the year 2020, puts india in 131st position among the 189 member countries.

Though India is developing its health and educational standards, the other countries are moving faster. This year, the HDI considered the environmental issues. This is special of this report.

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