

Welfare Economics and Human Capital Formation in India with Special Reference to the Weaker Section of the Population

Dr.Sameeksha Singh

D.Phil.

Centre for Development Studies, University of Allahabad

Email id: sameekshasingh.2013@gmail.com

Abstract:

Welfare economics analysis is a significant issue in the field of socio-economic and there are several studies on different issues done by different nations. Human Capital is the biggest capital for any nation and such capital should have been taken proper care, attention and development. The review system is a significant action regarding any policy including welfare economic policies as it provides a critical analysis in the form of strength, weakness, opportunity and threats. authors on the basis of various research studies. Sociological, psychological and financial needs are the major needs of all the individuals' and many people are not able to fulfil the above needs. There is a strong relation between unemployment and human capital formation but few studies have given its solution. Unemployment alone creates lots of other problems such as child labour, criminal activities, sex workers, beggars etc. in this paper authors elaborated all the problem and challenges in welfare economics and human capital formation.

Key Words: Welfare economics, Human Capital, weaker section.

Introduction:

India is a mixed economic country where both capitalist and socialist practices are pertinent. There are several mixed approaches that have been adopted for welfare of common people. Welfare economic practices balance between equity and equality of the society. Some people are very rich but they do not share their equity with poor and sometimes they do not know the ways to help the poor. Our mixed economic structure helps in creation of public policies by which government takes funds from rich people and share it with the poor. Mode of welfare is not in terms of direct money. However, it is an approach where we take from one side and help the other side and between these processes many steps are being followed by the government. Human Capital is the biggest capital for any nation and such capital should have been taken proper care, attention and development. Human capitals are not like other capitals they are not machine generated, so they need a socio-psychological approach in order to sustain. In developed nations, human capitals are treated in the best ways like quality education, quality health services and quality life style but in developing or underdeveloped nations such facilities are not available properly. There are several organizations working for human rights and human development but such advocacy is not sufficient. Now there is a need to explore the great deal between optimized welfare and human capital formation in a sustainable way. New welfare economics may be the right approach towards achieving the great deal of Human capital formation. The major emphasis of welfare economics is on attainment of efficiency and seeking the potential in human capitals. Welfare economics cannot be used as single controller

to appraise the welfare changes over the time. There are some questions which should be considered before framing the welfare economics such as “what makes people happy? What background should take its place? Theoretical and empirical research are able to fill this gap.

The review system is a significant action regarding any policy including welfare economic policies as it provides a critical analysis in the form of strength, weakness, opportunity and threats. This will always help in future to make improvements in the existing policies. Policy maker will be able to investigate the welfare schemes and review the informed features, i.e., the account of quality information, accuracy of quality information and match information with regard to effectiveness welfare economic policy. Further, match information will benefit the policy makers and mismatched information will eradicate the inaccuracy of welfare policy.

Welfare economics analysis is a significant issue in the field of socio-economic and there are several studies on different issues done by different nations. Many conventional techniques and old methods are used in various welfare economic studies. Presently, Indian government is promoting those welfare economic policies by which they can benefit the households in poor community such free ration facility to BPL (below poverty line).

Nowadays government is also using technology for improving the economic welfare such as Adaptive Network Based Fuzzy Inference System (ANFIS) which is an artificial intelligence-based technology. This is very helpful to collect the real micro data of human capitals and households.

India is following the model of federalism since its independence and there are so many things/policies which are shared between central and state governments. Functional responsibility and accountability are also shared for major policy issues and options. Central government is transferring a huge amount of funds to the state governments for specific redistributive programme; further state governments also allocate substantial financial capitals to welfare economic development programs. It can be considered as a comprehensive model for development through welfare economics.

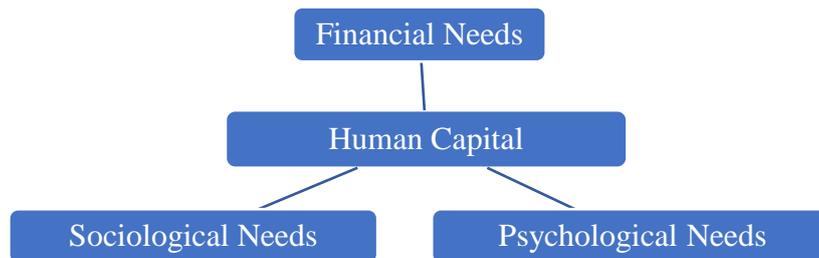
Welfare Economics

There is a real concern about equal accessibility of welfare economics but India is a country of differences. There are several factors which decide the economic and social level of human capitals of different communities such as caste, creed, religion, colour, body and so many other things. So, it is not possible for the government to give equal access of welfare economics. Welfare economics should follow need-based approach and equity would be provided as social and economic status of human capitals of various communities. It is a true statement that welfare economics relationship cannot exist in a vacuum, so there are interrelationships with other fields. Sometimes welfare economics have an overwhelming situation occurred if there is strong relationship with political, social and financial fields. There are several possible kinds for a particular effect of a welfare economics. In a human capital formation welfare economics may depend on collective quantity of specific items such as his or her ostentation, social environment, quality of education, employment, opportunities and health facilities. When all the above meet together at a right time for the right purpose, better human capital formation is possible. If all the item mentioned above are interdependent, a small analysis could be done for testing the validity and reliability of interdependency. An ex and post evaluation could also be done for knowing the effect of various dependent sub-items of the above items.

Human Capital Formation

Human capital formation is considered as a creation of a capital to all the individuals of society/communities where they will be able to do a quality work and enhance the life of their selves and other dependents by fulfilling all the sociological, psychological and financial needs.

Above definition is created by the authors on the basis of various research studies. Sociological, psychological and financial needs are the major needs of all the individuals' and many people are not able to fulfil the above needs. If someone is fulfilling the sociological needs but rest needs are not fulfilled. In the same way some people are financially much enough but poor in other's needs.



Graph 1: Human Capital Needs

Human capital formation is possible (as per above graph:1), if a human is capable of fulfilling the Sociological, psychological and financial needs. There are some other needs such as physical need, safety needs, etc but they cannot be considered as an essential in human capital formation.

Sociological Needs: A human capital formation and development is primarily depending upon the fulfilment of the sociological needs as they are responsible for the upbringing of an individual. Sociological needs include love, affection, friendship, belongings and companionship which shows that humans are the social being and they are different from other living animals. These needs encourage and motivate human to interact with others and a society as their own requirement. Such needs inspire humans for doing better in all the course of life and helps in creation of quality of life. Many human beings do not associate themselves with other humans and are unable to be part of a group, the main reason behind such behaviour is their unsatisfied sociological needs.

Welfare economics can play a significant role in socialization of human beings and also helps them to convert themselves into Human capital. Welfare economic services such as quality school service, quality food, quality entertainment, quality home facility, green environment etc may be strong weapons for human capital formation among the weaker section population of India.

Psychological Needs: Psychological needs fulfil the mental process satisfaction. Such needs do not have any kind of physical or biological relation. Fulfilment of these needs are in abstract form which give mental satisfaction. All the Individuals have different kind of psychological needs and they always try to satisfy by their own ways. Satisfaction of such needs give pleasure to the individuals and feel better than earlier, but there is no physical gain. Psychological needs and satisfaction of human beings for the success is very much important as psychologists said,

otherwise such a dissatisfied human can harm them self or others. Satisfaction of psychological needs helps in personality development. Human's learning skills become more faster and they feel motivated to achieve new task in life. There are some major examples of psychological needs like; 'need for attachment', under this human always wants to connect him/herself with other near people. In others words, humans wants attention of near and dear ones. Second example is 'need increase in pleasure and ignorance of sadness', under this need human wants more enjoyment in his/her life and always try to ignore those things which give pain to them. Welfare economics can do lot of actions with regards to psychological needs satisfaction. Most of the human beings want well-being life, a happy family and success. All these things are easily possible for employed humans but it is challenging for unemployed humans. As per many studies "non-suitability with job" is the major concern to get a job. So, welfare economics can organize such activities among poor human beings to bring their confidence and willpower. Satisfaction of psychological needs is over and above to all the others needs as it impacts the personality. If you will "design and establish a garden in cluster, everyone will be happy but if you design and establish raucous factory, everyone will be unhappy." Imagination, conceptualization, development, implementation, monitoring and evaluation are much significant before doing the welfare economic activities regarding psychological needs satisfaction.

Financial Needs:

Fulfilment of financial needs is the third major factor of human capital formation. Fulfilment of this need to weaker section of the population is a very big challenge as they do not have any income source. Most of the weaker section population are involved in labour related work where work is not fixed. Seasons, time, day or type of work are the deciding factor to allocate the employment, so the income is also fluctuated. In other hand financial needs are the minimum expenses which are essential for a household to meet out their minimum requirements. Food, rent of home, transportation charges, gas and electricity expenses, health issues or education of children are some examples which need financial support. Income generation instruments should be created by welfare economic activities to meet such challenges. Direct financial support would not be given to weaker sections.

On the basis of existing studies and surveys, government holds the welfare economics in direction of conventional knowledge and wisdom as a primary engine of growth and development and associate modern technology for better results. Happiness is the ultimate goal of any welfare. Welfare economics is not complete without analysing the welfare that how happy it can make a community. So many economists may have doubt regarding consistency of happiness. They believe that self-assessment regarding happiness level is not possible on some particular interdependent factors.

Review of Literature:

Welfare economics' subject matter continuously try to improve the economic well being of the society. In the book of smith (1776) titled "An Inquiry Into the Nature and Causes of the Wealth of Nations", it has been mentioned that how people can create wealth through collective working and efforts which individual cannot achieve alone. In the whole world welfare economics needs to reform as actual economic welfare in the factual world. Modern economist

must focus on the division of labour as there is much disparity in terms of wealth. As Moykr (1990), Landes (1998), and several others have identified that where market economics is allowed to operate, there is prosperity among population. Some people will argue that during last hundred years, welfare economics did a good job for human beings because we have given enough to them and they are in good situation.

(Sen 1992), Well-being of human beings may have various dimensions, as per capita income, life expectancy, competences, and disparity (Frey and Stutzer 2001) even happiness level cannot be measured properly so that, many economists are still working on it. However, welfare economics defined as fulfilling the material needs of human beings for their well-being at maximum level through the economic development of any state. Progress in an on-going process and there is no final output, however economic institutions trying to improve and restructure the welfare economics in better way for next generations. Natural resources consider the equity of all the stakeholder of this universe but it is not in practical. Some of the people are controlling these naturals and doing a business by forming some laws and legislative rules. Welfare economics must consider such facts and charge high rate of taxes to reconsider this income in welfare of poor population. Buiten et al. (2020) claim in their study that responsibility should be shared by all the stakeholders of particular material.

Human well-being is not just a vast and dynamic concept but it is very much significant for human beings. Several studies proved that human well-being is directly affecting the positive emotions and people's life satisfaction (Tarrant 1996; Hartig et al. 2003; White et al. 2010, Kaplan and Stephen 1995; Vemuri and Costanza 2006). The concept of interrelation values of nature also redesigns the importance of nature and human relation which ultimately impacts on the concept of human beings (Perrin and Benassi 2009; Cervinka et al. 2011). Human well-being is a self-reported concept, sometimes it may be influenced by some disturbances but experience-based concept is considered more reliable (Di Tella and MacCulloch 2006). Human well-being has always been measured and varied across the circumstances and time (Sandvik et al. 1993).

During the yester years, government gave lots of financial benefits to the poor farmers and such advocacy may be appreciated. If government is doing some financial benefits to urban and rural people may also be appreciated (Ruel et al. 2010). However, supporting policies for increasing the agriculture product and its price may be good for poor farmers as they sell large portion of agricultural production in the market to fulfil their other basic needs (World Bank 1994).

Economic development of India can be divided into three major categories after its independence. First phase (1951-1963) has been the mean growth of GDP was 3.8% and Indian economy was establishing itself. Industry growth was at primary level and Landlord system had been removed from the country (Jha 2004). Urban and rural poverty and inequality were decreasing day by day but rural poverty and inequality were decreased faster than urban area.

The second phase (1964-1990) of economic development has an average growth and GDP was 4.3%. Many revolutions were taking place. One of them was green revolution (1967-1978) which targeted to improve the technology for agriculture and invent new seeds with high-yielding variety. This successful revolution not accelerated only agriculture growth but enhanced the growth in industrial sector by establishing factories in fertilizers, agriculture

protection chemicals, and other interlinked sectors. During this period poverty reduction was at high rate and inequality among urban and rural areas was falling down. After 1991, third phase of economic development has been started and GDP was at high rate 5.1% and more employment has been created. This period was more liberalized regarding economic development and international trade and investment had been initiated. People's life style and food habits had been changed especially in urban areas. Per capita income was also enhanced during this period.

Although, it is a big challenge to developing nations to speed-up their economic development according to the increase in the population and labour force but there is no alternative solution for it. So, macroeconomic goals and welfare economic policies should be the focus area for any government for human capital formation in any nation. In a particular period, how much production has been increased decides the economic development of a nation. The Organisation for Economic Co-operation and Development (OECD-2001) defined human capital as "the knowledge, skills, competencies, and attributes incarnated in individuals that enable the creation of personal, social and economic well-being." Individuals attain knowledge, capabilities, skills, competitiveness only by quality education, efficient training, and also improve their physical fitness through good medical and health facilities. Education is the strongest tool which is linked with people's behaviour and play a very important role in economic growth. Education also brings awareness among the people about health care, reproductive health issues and help in living a long and happy life (Islam, 2020). According to Suri et al. (2011), there are two-way communication between human capital and economic development and assessed the strengths of relationship with the help of panel data. He has found that human capital formation positioned as a decisive role in attainment of sustained economic growth. Further, he finds out human capital formation is not a single item in economic growth but it is essential input to attain economic growth and development. So, he has suggested that first do the human capital formation to gain the growth in economic development. Saksena and Deb (2016) deliberated economic growth and human capital indicators of around twenty-eight states during 1990-2010 and examined a two-way connection between economic growth and human capital formation. They originated a strong and reliable conjunction in human capital indicators among all the state and emphasized the need for human capital formation and economic growth to discharge the various barriers.

Discussion

There is a strong relation between unemployment and human capital formation but few studies have given its solution. Unemployment alone creates lots of other problems such as child labour, criminal activities, sex workers, beggars etc. There are many factors of unemployment but lack of real human capital formation is a major one, as many studies proved that skilled and capable manpower are absent in the market. If parent is not able to earn sufficient, definitely children will go to earn for their survival in the form of child labour or a beggar. Unskilled manpower earning is limited and it's not a permanent earning. Most of the unskilled manpower work in informal sectors where wages are not fixed and people are unable to earn as per their requirements. It is a very common problem in the undeveloped and developing countries.

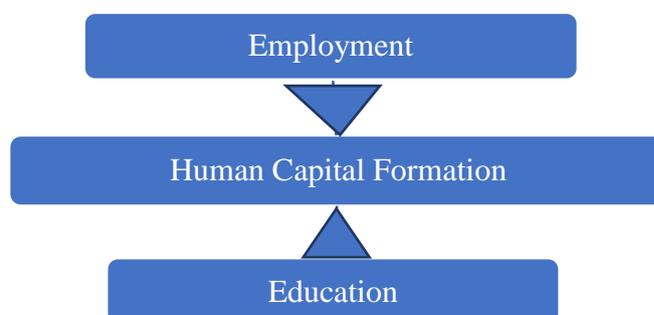
Basically, welfare economics deals with the labour economics where all the policies are made to marginalize people who cannot afford their minimum requirement on regular basis. Social stock of human capital formation is centric to the microeconomic policies and it affects the economic growth of nation. There is a huge difference at the microlevel with regards to human capital growth and wage structure.

Human capital growth in the 20th century was remarkable as education system started to strengthen and most of the population started to get education around the world. As earlier, it was discussed, that education is the backbone for human capital formation so 20th century was the golden period for the weaker/ marginalized population in India. Following changes have been occurred due spread of education among all in terms of human capital formation;

1. Education provided a rational thinking process among individuals
2. Individuals became competent to others
3. Increase in income
4. Improvement in quality of life
5. Improvement in quality of work life
6. More urbanization with infrastructural facility
7. Decrease in mortality rate
8. Better health care
9. Decrease in dependency on agriculture
10. Increase in women participation in labour market

Above are few examples of education's benefits in human capital formation. Apart from these there are several other benefits such as after educating one individual, there is no need to do welfare economic activities for the rest of their life. One educated generation will transfer it to the next generation. It can be said that if government takes initiative to provide free education up to higher education/professional to all the marginalized population, there will be no need to provide any other thing for their human capital formation.

Education is an advantage that enable human beings for earning along with creating the path of success in all the dimensions of life. It is a kind of investment which is directly connected with the income. Money generates more money; it is a very popular quote which reveals a real fact that if you have money then you can use this money to generate more money from others sources. A great philosopher said if you want to be empowered for ever, generate the second source of income.



Graph 2: Human Capital Formation

Conclusion

The aim of this study is to analytically gauge the role of welfare economics in human capital formation of the weaker section of the society in India. A descriptive and review-based approach has been followed. Different instrument and factors have been critically evaluated to find out the solution of the problem. Human capital formation is not a short-term process, it takes a long period since the infant age of an individual. There are several factors responsible for human capital formation such as social environment, political approaches of the government, schooling, higher education, employment, education and so many others but employment and education are two important instruments which play a vital role in human capital formation of the weaker section population in India. Since India is the second largest populated country in world and got independence only before 73 years, so there will be some problems to generate employment at large level. Earlier most of the population were engaged in agriculture and its allied activities, so there was less problem of employment. Economic growth of a nation is very much responsible for creating the employment. India is following the mixed economy culture and earlier there were lots of restriction in operating a business in private sector but presently the government is relaxing and also proving entrepreneurial environment to youth for starting their own business. Start-ups, mudra loan, and credit facilities are being started to boost the new ventures. On the other hand education is a very significant factor in human capital formation and is a permanent solution for human capital formation. In the discussion section of this paper, benefits of education have been discussed in detail. Human capital formation is not only helping the weaker section population but also contribute in the growth of economic development. So, it can be said that the welfare economics is a long-term investment which gives high rate of return in the form of human development and income development of the nation. There is a positive relationship among the education, employment, welfare economics and human capital formation which leads to economic growth and development. Now, it's time for exploration of new model to generate huge employment and quality education which should be easily accessible, affordable and effective for the weaker section population in India. There are many economic welfare practices running by government but their social and financial audit should have more check points.

Reference

1. Smith, A. (1937). *The wealth of nations*. New York: Modern Library. [orig. 1776].
2. Moykr, J. (1990). *The lever of riches*. Oxford: Oxford University Press.
3. Landes, D. S. (1998). *The wealth and poverty of nations: why some are so rich and some so poor*. New York: W.W. Norton.
4. Sen, A. (1992). *Inequality re-examined*. Cambridge: Harvard University Press.
5. Frey, B. S., & Stutzer, A. (2001). *Happiness and economics: how the economy and institutions affect human well-being*. Princeton: Princeton University Press.
6. Buiten, M. C., de Streel, A., & Peitz, M. (2020). Rethinking liability rules for online hosting platforms. *International Journal of Law and Information Technology*, 28(2), 139–166
7. Tarrant MA (1996) Attending to past outdoor recreation experiences: symptom reporting and changes in affect. *J Leis Res* 28:1–17. <https://doi.org/10.1080/00222216.1996.11949757>

8. Hartig T, Evans GW, Jamner LD et al (2003) Tracking restoration in natural and urban field settings. *J Environ Psychol* 23:109–123. [https://doi.org/10.1016/S0272-4944\(02\)00109-3](https://doi.org/10.1016/S0272-4944(02)00109-3)
9. White M, Smith A, Humphryes K et al (2010) Blue space: the importance of water for preference, affect, and restorativeness ratings of natural and built scenes. *J Environ Psychol* 30:482–493. <https://doi.org/10.1016/j.jenvp.2010.04.004>
10. Kaplan S, Stephen K (1995) The restorative benefits of nature: toward an integrative framework. *J Environ Psychol* 15:169–182. [https://doi.org/10.1016/0272-4944\(95\)90001-2](https://doi.org/10.1016/0272-4944(95)90001-2)
11. Stefen W, Richardson K, Rockstrom J et al (2015) Planetary boundaries: guiding human development on a changing planet. *Science* (80-). <https://doi.org/10.1126/science.1259855>
12. Vemuri AW, Costanza R (2006) The role of human, social, built, and natural capital in explaining life satisfaction at the country level: toward a National well-being index (NWI). *Ecol Econ* 58:119–133. <https://doi.org/10.1016/j.ecolecon.2005.02.008>
13. Perrin JL, Benassi VA (2009) The connectedness to nature scale: a measure of emotional connection to nature? *J Environ Psychol* 29:434–440. <https://doi.org/10.1016/j.jenvp.2009.03.003>
14. Di Tella R, MacCulloch R, Oswald AJ (2003) The macroeconomics of happiness. *Rev Econ Stat* 85:809–827. <https://doi.org/10.2139/ssrn.285918>
15. Sandvik E, Diener E, Seidlitz L (1993) Subjective well-being: the convergence and stability of self-report and non-self-report measures. *J Pers* 61:317–342. <https://doi.org/10.1111/j.1467-6494.1993.tb00283.x>
16. Jha R (2004) Reducing poverty and inequality in India: has liberalization helped? In: Cornia G (ed) *Inequality, growth and poverty in an era of liberalization and globalization*. Oxford University Press, New York
17. Islam, M. S. (2020). Role of Islamic microfinance in women empowerment: Evidence from rural development scheme of Islami Bank Bangladesh limited. *ISRA International Journal of Islamic Finance*, 13(1), 26–45.
18. Suri, T., Boozer, M. A., Ranis, G., & Stewart, F. (2011). Paths to success: The relationship between human development and economic growth. *World Development*, 39(4), 506–522.
20. Saksena, S., & Deb, M. (2016). Economic growth and human development in the Indian States after two decades of economic reforms, MPRA Paper No. 71128
21. Basu K, Van PH (1998) The economics of child labor. *Am Econ Rev* 88(3):412–427
22. Baland J, Robinson J (2000) Is child labor inefficient? *J Polit Econ* 108:663–679
23. Mukherjee D, Sinha UB (2006) Schooling, job prospect and child labour in a developing economy. Mimeo: Indian Statistical Institute, Kolkata