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INSTITUTIONAL CONDITIONS FOR HUMAN CAPITAL CONSUMPTION

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Abstract: The article is devoted to the issues of balancing the institutional environment of human capital consumption. The authors identify and characterize the causes and mechanisms of institutional traps of human capital consumption: "underdevelopment traps", "labor market signal traps", "low-quality public goods traps", "rent-oriented traps", and their specific influence on the Russian economy. The article reveals the connection between the level of utility extracted from the consumption of human capital and the degree of compliance of the institutional conditions for the consumption of human capital.

Keywords: human capital, consumption of human capital, utility of human capital, institutional traps.

INTRODUCTION

The study of human capital consumption institutional factors is determined by the development dynamics requirement, the state of human capital institutional components and the balance of the institutional environment, in case of lack of which the effectiveness of the national human capital use is significantly reduced, and sharp differences between industries and territories may occur. The institutional approach focuses not so much on the study of the human capital consumption results, but on the consumption process itself, its forms and methods. The institutional approach involves identifying the influence of socio-economic institutions on the productive abilities' implementation. In addition, the issues of forming the institutional system of society, determining the trends of its functioning and development, as well as the impact of these trends on the human capital consumption need to be studied properly.

METHODOLOGY

The neoinstitutionalism theory puts forward institutions (sets of rules and norms) that limit the set of alternatives from which an individual can choose according to their criteria, as regulators of human economic behavior in addition to resources and technologies. One of the founders of the neoinstitutionalism theory, D. North interpreted the Institute category as a norm of economic behavior that arises directly from the interaction of individuals. According to North, institutions create frames, restrictions for human activities, formal rules, agreements reached, internal restrictions on activities, certain characteristics of enforcement, embodied in legal norms, traditions, informal rules, cultural stereotypes (4). In our opinion, in relation to human capital, the institutional environment of consumption is represented by fundamental political, social and legal rules that form the basis for the process of extracting useful properties and effects from human capital at all levels of the economy. At the same time, quite often elements of the institutional environment during their interaction come into conflict and lead to an imbalance between the accumulation and consumption of human capital, as well as to the development of inefficient consumption of human capital on the scale of the national economy. The destructiveness of the institutions themselves and the process of their interaction is manifested in the formation of an "institutional trap".

RESULTS

Modern literature presents two approaches to the definition of "institutional trap". In the definition given by D. North, the blocking effect is formed by an institutional trap, which occurs due to the conflict between established and implemented norms. The result is the emergence of unviable or ineffective institutions (4). V. Polterovich considered it as an ineffective, but stable norm that has a self-supporting character (5). Studying the causes of this phenomenon, he points to the presence of "underdevelopment traps" or "backwardness traps". One of the most important mechanisms of this trap is an imbalance in the human capital development level and technologies that are used in the country's economy. In technologically backward production, there is no demand for innovation, so there is not enough demand for highly qualified human capital, it is not consumed, is not rewarded properly, and remains unclaimed. Potential innovators are not implemented, they are engaged in routine work, in search of an adequate base for implementing opportunities, they go abroad, causing a process of "brain drain". Because of this, companies do not implement any innovative activity, and the production technology remains backward (9). In such an economy, a kind of vicious circle is formed – there are no incentives for either accumulation or consumption of human capital. As a result, the economy stops in its development.

The "underdevelopment trap" model is demonstrated in Figure 1. This trap has a self-sustaining character, since it contains not only direct, but also backwards connections. The low level of technology development does not allow the other factors of production, including human capital, to "open up", as a result, low labor productivity is observed. Low returns are expressed in the weak effects of human capital consumption, the consumer of human capital, and the state (when paying taxes). As a result, society does not see the point in improving the quality and multiplying the amount of human capital. The educational sector is also degrading. It is important that each of the constraint factors that support the trap is both a consequence and a

prerequisite of not one, but of several other factors. All these factors ultimately hinder the entry of countries with economies in transition to modern world economic relations as full partners. Moreover, they are the cause of international isolation. Statistically, this will be reflected in a widening gap in the level of development and income of lagging and industrialized countries. The following data can be considered as the evidence: if at the beginning of the 19th century the average income per capita in developed countries was 1.5-3 times higher than in the "third world" countries, in the middle of the 20th century — the metric is close to 7-9 times, in the 21st century — 50-70 times.

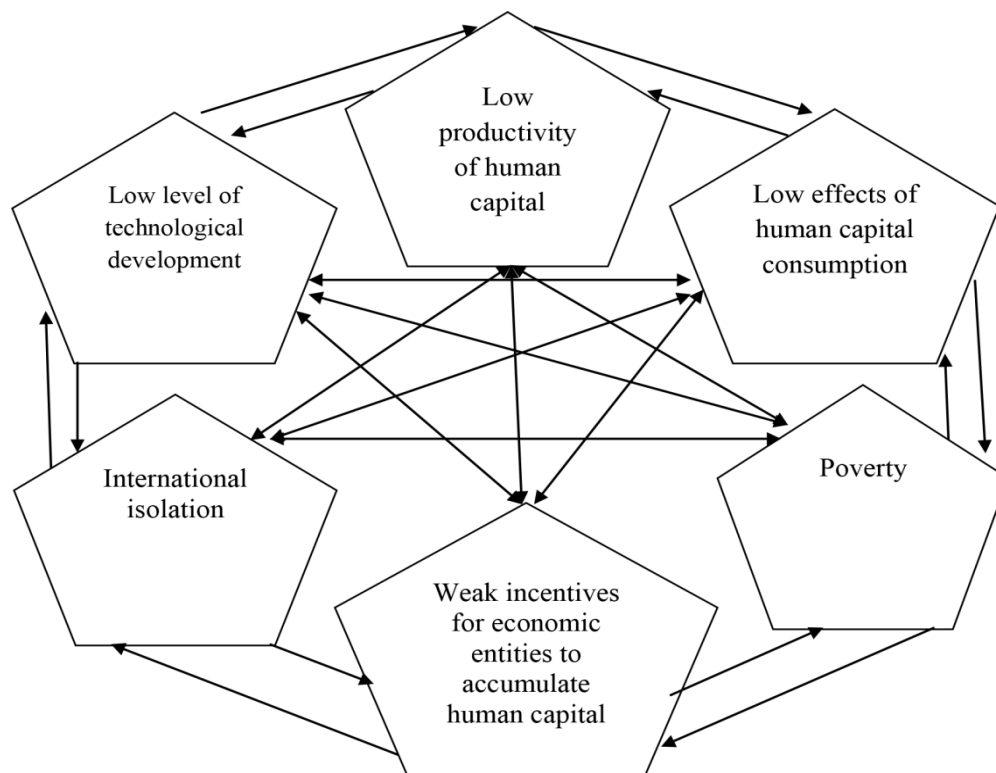


Fig. 1. Underdevelopment Trap

While maintaining the current dynamics of economic growth, we do not expect to have this gap reduced in the foreseeable future (2). When analyzing the causes of human capital consumption institutional traps, the most typical situation is when there is a discrepancy between the short-term and long-term interests of economic agents and the combination of their behavior models is formed based on these interests with economic efficiency. In particular, the blocking effect (an institutional "labor market signal trap") is manifested when signals produced by individual labor market counterparties are ignored or not fully considered by other contractors. Lack of freedom may arise due to the socio-psychological, cultural-historical and political barriers. For example, the obsession with "chasing" higher-level diplomas (the fashion for higher education and academic degrees) in Russia at the beginning of the 21st century turned into a non-stop, self-sustaining process. The current and future needs of the labor market were ignored, and the market was oversaturated with certain groups of specialists to the detriment of others.

A significant part of the certified labor force does not find employment in the labor market for the obtained major. Some categories of human capital are underutilized

and overinvested in other categories. At present, about one in five Russian employees have excess human capital acquired through the formal education system, which is evidence of the labor force overproduction with high levels of educational training. The actual professional education coincides with the required one only in 55% of respondents of the Russian monitoring of the economic situation and health of the population, while in 25% it is excessive and in 20% it is insufficient. The part of human capital that remains unused can be considered as a kind of deduction from the welfare of society. Such phenomena are unavoidable in complex modern economies that are subject to frequent technological changes. In the Russian case, their scale is so large that it suggests violations in connections with education - the sector that contributes to the accumulation of human capital - and the labor market, which reflects the need for human capital.

However, developed have implemented practical mechanisms to overcome the effect of ignoring the labor market signals. Thus, Germany, by strengthening the practical component of education, has the closest possible level to the needs of the labor market, while the United Kingdom practices many intermediary structures that ensure the correlation between educational institutions and business structures. The United States integrates scientific and educational organizations and industrial structures in the form of technoparks or public-private partnerships, while Japan is actively engaged in career guidance (3). The trap of "under-production" and low quality of public goods (a set of goods and services provided to the population free of charge, at the expense of state funds). In modern literature, the quality and volume of public goods produced are primarily associated with the process of human capital accumulation. At the same time, the lack of adequate social infrastructure in the process of consuming human capital can also lead to its degradation and depopulation. The fact is that the level of public goods production development affects the motivational component when involving human capital in various spheres and sectors of public.

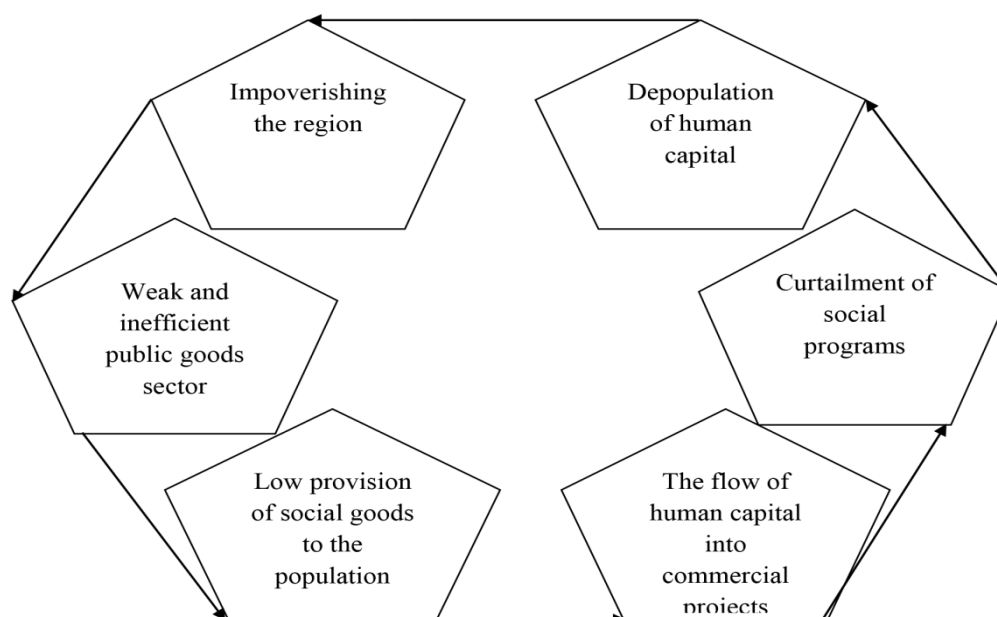


Figure 2. Trap of low-quality public goods.

Public goods are manufactured by the state, and the private sector is not interested in producing such products, because the costs are high, and the benefits will spread to all participants in the economic process, who have not incurred any costs. The lower the quality and quantity of public goods provided in the region, the more human capital is forced to purchase them on a fee-based basis (education, health, security, etc.), and therefore focus on extracting commercial effects, supporting commercial-oriented projects at the expense of social ones. This process will spin the spiral of underdevelopment of the public goods sector, exacerbating the gap between socially developed and low-developed regions (7). Given that the social impact of public goods is reflected in the physical and mental health growth, life expectancy, employment, education and the ability to perceive innovations indicators, it is expected that in poorly developed regions, the qualitative and quantitative characteristics of the population will gradually deteriorate. The experience of underdeveloped countries number that have joined the WTO and the World Bank, the participation in which is the privatization of the public goods sector, is the example of the human capital degradation due to this trap can be considered.

Thus, as a result of meeting the requirements of the World Bank, Zimbabwe's education and health systems have gone from being one of the best in all of Africa to a degraded sector. There is a shortage of medical instruments and medicines and working conditions and payment for medical personnel have deteriorated. The lack of funds for current expenses is partially compensated by setting a fee for recording and treatment services. But in general, access to health care has become virtually closed for large segments of the population, especially in rural areas, who do not have the ability to pay various premiums (7). In relation to the experience of Russia, we note that the example of subsidized regions indicates that they do not have an independent ability to fully rely on achieving the state of social well-being (10). Human capital consumption is also affected by the "Dutch disease trap" or rent-seeking. In Russia, this is reflected in the consequences formed by the "Dutch disease", when a certain successful industry pulls over the main resources, providing resources, including the human capital employed in it, with an income above the average in the economy, and provoking the degradation of other industries. In the Russian Federation, raw materials industries, offering high income, contribute to the concentration of the highest quality human capital. Some typical manifestations of "Dutch disease" are listed in Table 1.

Table 1. Typical consequences of the "Dutch disease" for human capital

Consequences	Features
Economic restructuring	Degradation of the industry, labor shifting from the manufacturing industry to the service and construction sectors, resource production. Industrial investment and R&D spendings are falling.
Variability of the economic environment	Significant cyclical fluctuations associated with weak economic diversification and unstable sources of income (for example, resource prices).
Rent-seeking and corruption	Large and poorly functioning public sector in terms of "Dutch disease" leads

	to fight rent-seeking and corruption, concentration of power and wealth, growth of inequality and poverty, the undermining of democracy.
The decline in the quality of education	Crisis of technical education. The link between the quality of education and the amount of remuneration is weakening, and human capital loses interest in obtaining high-quality education.

SUMMARY

Thus, the “Dutch disease” discriminates against the human capital of high-tech industries that are responsible for innovative development and can make the greatest contribution to total factor productivity and reduces incentives for employment. Human capital is being replaced by natural capital. The extractive industries are not labor-intensive or technology-intensive, so they do not have a significant demand for high-quality human capital. The decline in the manufacturing sector leads to a reduction in jobs that require skilled labor and higher levels of education. There is a surplus of unused human capital (1). If there is no demand for highly skilled human capital, the salary increase for employees with higher education is low or non-existent. This means that households have no incentive to invest money and time in education in the future. If there is no demand for high-quality human capital, it can be used unproductively (in workplaces that do not require the employee's existing skills and competencies) (8). In this situation human capital will gradually be lost.

CONCLUSION

The effect of the institutional traps may significantly increase via the “effect of mutual impact” on top of each other, meaning that one ineffective sustainable institution, according to its content and development, affects the boundaries and invades the territory of another inefficient stable institution. As a result, their joint activities create more issues than these institutional traps could create by existing and working separately from each other. The utility level extracted from the consumption of human capital largely depends on the degree to which the institutional conditions correspond to the quality, quantity and motivational attitudes of the individual. Therefore, the phenomenon of institutional traps is under the study of quite a wide range of scientists in the world, and from identifying and studying mechanisms of institutional traps of human capital consumption, finding solutions to these traps depends on the efficiency of national human capital and the progress of the national economy.

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