

Economic Regulation Mechanism of Market and State Failures in the Human Capital Markets

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Abstract: The study deals with the research of essence and specifics of human capital formation in the present economic and political situation. The researcher come to conclusion that the current instability is a specific feature of development, typical to the world system. This fact inevitably gives rise to practical issues involving clear definition of objectives of socio-economic development of countries and regions. The researcher note particular significance of these problems for Russia and other countries that settled down to a course of creation of advanced open economy. The study considers the role of human capital in socio-economic development of society and economy, substantiates the necessity of solving the problems of market failures and state regulation, distinguishes their forms and proposes economical regulation mechanism to control market failures in capital markets.

Key words: Economic growth, human, human capital, labor force, market failures, society

INTRODUCTION

Human capital is a common socio-economic category, the relevance of study and use of which is that its reproduction depends largely on scientific, technical and socio-cultural progress as well as innovation development, economic growth and population reproduction. The essence of human resources in economic science is defined differently; some researchers characterize them as a combination of physical and spiritual abilities of a person (Brock and Mirman, 1972; Drucker, 1993, Becker, 1993), other scientists determine human resources through people's ability to work at a certain age or as human capital or staff capacity (Thurow, 1999, Nureev, 2000; Burmeister and Dobell, 1970, Nozick, 1974). In our opinion, each approach, considered individually, essentially simplifies determination of economic nature and role of this concept. In fact, human resources are a complex and multifunctional category. Human being has many qualities he is characterized by different abilities, talents, even from the moment of his

birth he is predisposed to different types of activities and behavior. It is obvious that people have physical differences in their height, weight, strength and health which can either contribute to or on the contrary, hinder them from performing their specific job. People differ in eyesight, hearing, memory, learning abilities and genetics. Differences in physical qualities of a human being can affect the choice of profession, employment and creativity. People are different in their motives and ambitions they often differ in their penchant for smoking and consumption of various harmful products. The distinctive quality of a person can be his predisposition to a long, healthy and active life. People differ in their sensitivity to the needs of society, legal norms, law-abiding or conversely, disagreement with the standards of conduct, the amounts of common cultural and professional knowledge and experience and the desire to comprehend this knowledge and to use it effectively, inclusive of the public interest. People have different childbearing abilities, the inclination to build and strengthen family, child-rearing, observing discipline, civil

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order and responsibility. The study of the totality of the people's qualities can be used for development of socio-economic programs of population activities in the regions and countries. The development level of human capital is a decisive condition for the development of economy and society. Today, there is an urgent need to overcome such shortcomings of society as economic and business passivity, disinterest in development and the retention of outdated forms of consumption (Gvozdeva and Shterzer, 2007). Weak activity in business, low competitiveness of a considerable portion of people, underemployment, significant loss of knowledge and professional skills due to unemployment, high turnover of staff capacity and the degradation of a certain part of the working population could be attributed to disadvantages of contemporary economic and social life.

Human capital is an important condition for successful functioning of economy and society as well as the entire economic system. It acts as a vivid creative initiative of the development, improvement, production and functioning of economy and society as initiators of the socio-economic and environmental progress and investments. It helps to overcome contradictions, reduce risks, regulate and manage the economy and society as well as create various institutional and legal mechanisms.

As an active resource, a person facilitates the proportional and simultaneous development of all life and production conditions of society, promotes their integration and improves their use. Their optimization in quantitative and qualitative terms contributes to overcoming the crisis phenomena, reducing production costs and extent of internal and international labor migration (Gilmundinov *et al.*, 2009; Armstrong, 2005). The variety of qualities of human resources creates a basis for cooperation in this sector of entire countries and regions. At the same time, lagging behind in terms of quantity and quality of human capital slows down increase of production and the assimilation of new regions, leads to stagnation in economy, especially in its employment-intensive sectors and requires a forced increase in productivity.

MATERIALS AND METHODS

In a market economy, where all the resources take the form of commodities, they serve the basis for the formation of various markets of human capital, emergence of such categories as commodity labor force in all its forms; human capital as a special form of investment in human resources; staff capacity as a socio-economic and legal form of human resources in terms of their employment at different levels of the economy with due

consideration of entire system of socio-economic, legal and psychological relationships (Burtless *et al.*, 1998). Society is enriched by diversity of human resources market types taking into account not only their general laws of development but their peculiarities as well. The effectiveness of human capital markets is that they accumulate national wealth, promote selection of people with the highest quality resources, encourage effective competition and improve their quality.

Nevertheless, these markets have a number of particular features, their commodities are quite complicated, they result not only from professional training but also from natural abilities of an individual and from the situation in which the society finds itself today; therefore their selection on a competitive basis is necessary. Investment in human resources in form of education, general cultural and vocational training are very effective and resultative, not only commercially but also multiplicatively and have social, cultural and psychological efficiency. Their dynamics is very strongly tied to the economy, the lifestyles of people, their motivation, behavior which requires to take them into account and develop. In these markets, we can distinguish complicated labor performed by talented people or even brilliant professionals with special abilities as well as simple labor. This is the richest system of human capabilities and costs of their reproduction and employment. Increasing the role of human capital and investment in human capital is the main factor for competitiveness of economic systems in the contemporary world economy. It is necessary to create new production capacities to ensure a high level of capitalization of economy. As shows the experience of advanced European and Western countries, human capital should be a major factor in achieving a high quality and stable economic growth of the country in the context of increasing global competition. Thus, for example, in the structure of GNP of the USA and the EU countries, human capital is about 80% while in GNP of Russia it is not >50% which is not sufficient for the formation of competitive economic system meeting contemporary global trends (Galbraith, 1979).

Contemporary society begins to realize that "GDP is just a condition for economic growth, whereas the major thing is the man and his personality". An important feature of the new economic approach is the transformation of the main economic factors of production consisting in "animation" of capital. The modern understanding of such a category as "capital" includes not only a combination of certain assets, property, commodities, natural resources used in production in order to get profit and usefulness but also educational,

innovative, ecological and human resources. In the era of globalization, human capital acquires new competitive properties such as mobility, adaptability, increased information retrieval, focus on innovation, narrowing of space and time and interactive communication.

Analysis and modernization of the human capital structure as a key factor for increasing national competitiveness, becomes especially relevant in a strategy for transition towards “knowledge-based economy” (Rawls, 1997; Kubishin, 2003). The main characteristics of this type of economy include acquiring of previously unknown knowledge and its transformation into new machinery, technology and materials with high socio-economic value as well as providing practical assimilation of a new high-tech products and incorporating them into the life of a contemporary society.

The structure of human capital seems to be organized according to the “retarding” type (in terms of the competitiveness score) because demand generation in the resource markets is derived from the demand for new goods and services (Auzan and Bobylev, 2011). Supposing we were able to form the structure of human capital of an effective “progressive” type (though some countries manage to do it quite well now a days because they produce competitive benefits which are used throughout the world, namely, vehicles, computer technology, etc.), it is then fair to assume that this would have become a crucial component in the development of competitive relationships, on the one hand and would have contributed to the effective organization and management of human capital formation process and in the first place his education and professional training, on the other hand. In this case, there would have been no bias in the educational structure of the labor force towards training of excessive number of specialists in economy and jurisprudence with a shortage of engineers and technicians specialized in installation and adjustment of modern equipment requiring new technologies.

This problem is especially acute in Russia. Although, the literacy rate in the country is high (99.8% of the total population aged from 9-49 years) and the number of higher education institutions involved in training of graduate and doctoral students increases every year, the number of organizations carrying out research and development is small. Talented youth mostly chooses in-demand market occupations. Many industries lack specialists capable to develop, produce and exploit new equipment and technology (Charochkina, 2012). This situation is only one of many negative characteristics that reflect inefficient structure of human capital in Russia. It should be noted that the structure of human capital is subject to change. Therefore, a key tool in solving the problem of its improvement is the constant monitoring of

the global economic system, forecasting future trends in the global economy and the possibility of adaptation of Russia to contemporary conditions.

In addition to the variety of ways of human resources reproduction and utilization we can identify their noticeable dynamics in terms of both dimensions and structure. They differ in the quality and efficiency. Their dynamics is affected by many natural and socio-economic factors. They can strengthen their specialization and create diversified systems. This is due to the fact that the level and composition of human capital is influenced by many external and internal factors both relatively intensive and extensive. Usually all these changes are useful, though sometimes they can be negative.

RESULTS AND DISCUSSION

The formation of competitive market of human capital is the main thrust in an open market economy. However, human capital markets may have failures. Traditionally, market failures are defined as the inability of the market to deal with monopoly abuse; the lack of interest in creating public goods; the situation where the market is not interested in addressing externalities and establishing equitable distribution of income among the population and in elimination of the asymmetric distribution of information. At the same time, they should be identified and applied in specific industries and for specific resources. For example, in terms of human resources, they can be divided into such groups of forms as unemployment of qualified human resources; the poverty of a certain segment of the population leading to deterioration in human reproduction and demographic structure of population; high turnover of staff and excessive international migration. The failures of the human capital markets manifest themselves through the weak development of the social sphere, escalation of social conflicts, reduction in human resources, spread of diseases, decline in the birth rate and decrease in life expectancy. The markets failures can be observed also in the use of simple labor where complicated labor is needed, in saving corporate costs on improving the skills and retraining the labor force, in monopolization of the labor market by trade unions, their agreements regarding the level and forms of wages (Fig. 1).

The reasons for human resources market failures should be seen in the limitations of market motivation which is reduced solely to getting quick, maximum profits, including those obtained through the reduction of the human resources reproduction costs, in consideration of the human factor with all other material resources via the valuation mechanism and not accounting for multiplier in observance of the human relations in the state,

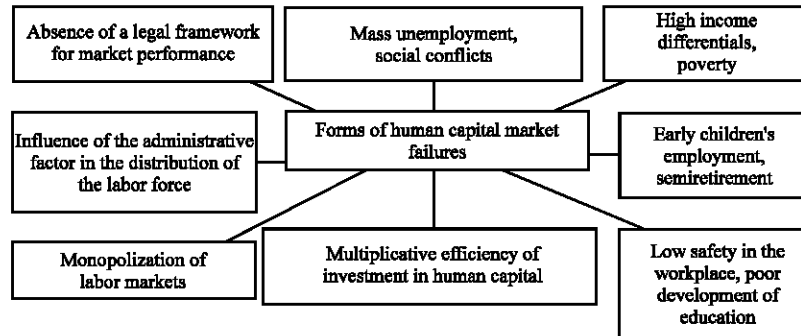


Fig. 1: The main forms of human capital market failures

transformation of the human resources reproduction processes into the area affected by numerous factors of non-market nature, including political, legal, psychological and lifestyle issues. An interesting case happened in January 2015 in Saudi Arabia: oil prices have increased immediately after Sheikh's death. Similar processes may occur in the world of labor. For example, to reduce costs, the European Union countries absorb millions of migrants employed for low wages due to their legal insecurity.

Market failures are causing serious damage to the economy and social development of the community as well as industries, regions and enterprises, their progress and abilities to overcome crises. In such circumstances, particular measures are necessary to minimize the negative consequences of these market failures. Historically, for many centuries, in these cases society resorts to state regulation which provides an active policy toward social progress. Difficulties of state regulation of these problems are that it is needed to reconcile economic and social interests of many categories of workers and the society by setting minimum wages and introducing various social payments, including unemployment benefits and maternity capital as well as development of public health service, education, culture and improvement of the demographic situation.

However, experience has shown that state regulation of the human resources market may not only be efficient but lead to failures, too. This is reflected in the establishment of single-industry towns, unproven, often bureaucratic decision making, propagation of corruption elements, excessive administrative costs, abundance of decisions to the social interests of society and the interests of the elite groups, inadequate funding of socially important projects, lobbying of monopolies' interests, poverty of certain segments of the population, dependence of undertaken measures on the subjective and sometimes voluntaristic decisions, political situation, low level of scientific and information bases as well as the decisions adopted.

Mechanism regulating market failures: The causes of state failures in the human resources markets should be seen in the complexity of reconciling the interests of different social groups and society in general as well as in the lack of appropriate economic instruments to minimize state failures. The requirements for this mechanism are quite clear: it should ensure optimal distribution of productive forces, reduction in the number of single-industry cities, development of education and health systems as well as environmental improvement and to have strong scientific basis. With the transition of the Russian economy to the market in 1990s, the nature of this mechanism was essentially simplified: it came down to a change of ownership and privatization whereas other relations including market and state failures in the human resources market were not taken into account. Subsequent developments in Russian economy indicate that the approach to the formation and maintenance of a market economy was simplified, though it must have been comprehensive, including not only implementation of perfect competition but many other relations, too. The practical performance of human resources markets as well as other markets, requires the use of both socio-economic and institutional arrangements to overcome market failures and state failures.

In our opinion, a special place in this system of mechanisms should be occupied by the legal regulation of markets and public investments in the economy. Institutional and legal regulation should be used especially widely in fighting corruption. Corruption is widespread in both Western and Russian economies which is inadmissible as it seriously inhibits economic growth. A special place in these mechanisms should be taken by social policy of the state, enterprises and regions, intended to minimize the unemployment rate, maintain the necessary level of wages, save society from poverty and contribute to the improvement of the demographic situation. The optimization of macro-economics has a great importance in regulating

reproduction of human resources, especially with regard to reducing inflation, accelerating economic growth, optimizing all levels of finance and increasing of socio-economic efficiency of international relations.

CONCLUSION

The conducted analysis suggests that the economy of human resources is rather complicated system. Here we can distinguish differences in the technological base; human resources; economic, social, institutional and organizational relationships. The interaction between them as we have already seen, remains complicated; they contain not only positive dynamics but also the failures, therefore, there is urgent need for availability of mechanisms for their coordination through both free competition and state and public regulation. Some economists believe that this is genetically incompatible, however, the experience of advanced countries convincingly testifies that that is not the case both relations arise with regard to any goods and resources, forming certain compositive structures which differ not only in their relationships depending on the level and nature of productive forces and development stage but also in the period of industrial cycle. In the modern economics, economy is often referred to as post-industrial, market, mixed, institutional and socially-oriented market economy.

Based on the conducted analysis, it is more appropriate to define the today's economy as a system of state-market partnership. This definition reflects not only the market and state regulation and their achievements but also their failures and finally, their synthesis. The theory of market and state failures is a perspective area for further methodological progress of economic science as well as for search for solutions to difficult practical issues including those emerging in the context of economic crises.

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