

Public Investment in Human Development in the Russian Federation

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Abstract

During formation of the knowledge-based economy, human capital of society determined economic growth and development. The article pays attention to the issues of human capital formation, considers relationship between economic growth and human development. The paper analyzes the dynamics of human development in Russia and in the Group of Seven. The State investment in the social sphere, especially in the programs of social support, education and health, directly affects human development. Increasing budget expenditures make it necessary to implement structural reforms and the change of funding. The article highlights the budgetary allocations to the social sector in Russia, considers the planned expenditures for the medium term and examines the role of public investment in social sphere in achieving the high level of human development.

Keywords

Sustainable Economic Growth, Social Expenditure, The Human Development Index, Federal Budget Allocations, Public Investment, Formation of Human Capital

1. Introduction

Establishment of the knowledge-based economy, creation, accumulation and use of knowledge in the production process turn to be the important factors in the development of the country's competitiveness. Human capital in the narrow sense is knowledge, education and the ability of individuals to enable them to create new knowledge, to realize national goals and objectives. Human development makes it possible to achieve a high level of social and economic growth. It is impossible to implement significant achievements in the field of science and technology, the establishment and development of institutions without highly educated people. Consequently, in the modern society human capital development becomes the fundamental factor for each individual and the State. In the last twenty years, a number of countries have substantially improved both income growth and non-income characteristic of human development [6]. The best practices of these countries is an example of the fact that long-term investment in human development allows the society and the economy becomes more robust to external and internal threats. Great importance for the formation of human capital, which is adequate to the requirements of

modern knowledge-based economy, has investment in the spheres of human development such as social support, education and medicine.

2. The Role of Human Capital in Economic Growth

During the transition of advanced economies in the post-industrial stage of development the place and role of the country in the world's economy is determined by the level of its economic development trends and economic growth. Sustainable economic growth is a condition to retain the leading position in the global economy. Therefore, States pursue effective economic policy and facilitate the transition to the regime of balanced and sustainable growth. Sustainability requires optimal management of industrial complex, human and natural resources potential. Growth occurs due to the increase of the resource base and by increasing the productivity of resources, which are used in the production process. Certain trends of socio-economic development characterize each historical phase. Growth is determined by factors such as the rate of capital accumulation, increase of labor costs, growth of natural

resources and technological progress, which is described by the growth rate of total factors' productivity. Upon that, the contribution of each factor changes over time. Current models of economic growth, taking into account the impact of technological progress on the economy.

The works of Ramsey F. (1928) appear to be the direct precondition for the formation of the modern theories of economic growth. They dedicated to the optimization of household's income [12]. Further development of the growth theory showed that an increase in the investment rate might cause the growth rate of output in the short and medium term. In the long term growth rate of the economy will be limited to the level of another factors' growth, for example, labor factor. Within the framework of neoclassical paradigm, the theory of economic growth started in the late 50s. It included the main achievements of predecessors. Research of Solow R. played an important role in the development of ideas about economic growth. Solow R. used the aggregate production function for the decomposition of growth in the contributions of various factors. One of the model's components was the technological progress, which is exogenous in this model. Solow R. model considers technological progress (innovation) as an exogenous factor of growth while subsequent growth models examine factors of technological progress as endogenous. Model of Arrow K. explored changes in human capital as a source of productivity growth, paying particular attention to training in the workplace [1].

A number of researchers have come to believe that the technological progress achieved in the economy due to the sectors in which new technologies are generated. Therefore, an important endogenous parameter is the amount of resources allocated to these sectors. One of the most important incentives for work on the new theories of growth is the desire to determine the fluctuations of economic growth in the long term. A new stage of modern theory of economic growth development was the inclusion of such factors as research and development in the model of growth. In the models of economic growth, researchers began to pay more attention to human capital, the level of education, knowledge and investments in research and experimental development. To investigate the contribution of technological progress to economic growth in the classic model was introduced the sector of research and development and was taken into account the allocation of resources between the production of ordinary goods and the sector of research and development. The model of economic growth where technological progress became an endogenous factor of growth was created for example by P. Romer, G. Grossman, E. Helpman. With the increasing interdependence of countries and regions new researches in the field of economic growth began to take into account the spread of new technologies, the level of technological progress in the leading economies and the transfer of knowledge and technology from the leaders to the rest world. The purchase of the new technologies from the leading countries is cheaper than an active innovation policy. Distribution of new

technologies and knowledge, which are public goods, allows the countries in the lower stages of development, to grow faster. It may help to reduce the differentiation between countries. Barro R. and Sala-i-Martin X. analyzed in their research the problem of convergence as well as the causal relationship between the level of per capita gross domestic product and investment [2]. The study showed that the growth rate of gross domestic product per capita is positively associated with the source of human capital and investment and negatively related to political instability and price distortion.

Therefore, researches demonstrate that human capital and other social factors play an integral role in economic growth and development of the economy. The most important factors of economic growth at the present stage are human resources (worker's knowledge and education), scientific and technological progress, spending on the sector of research and development, etc. Nowadays, the majority of theories consider that human capital raises income of the company. The accumulation of knowledge represented in new technologies leads to an increase in labor efficiency. Educated workers are more useful to company because they follow orders better and they are more reliable. For this reason, highly skilled workers earn higher wages. Sector in which knowledge is produced and distributed and branches of the increased demand for knowledge (knowledge-intensive sector) include, in addition to sphere of research and development and education, high-tech industries (production of computers, communications equipment, etc.). The country's integration into the global labor division depends on the development of these sectors. Thus, the States take into account the importance of human development when government carry out a policy. According to the Human Development Report 2013, three main drivers of human development include a proactive development state, tapping of global markets and determined social policy innovation [6]. Human development and government spending have the direct influence on each other. The State investments in people's capabilities, especially in health and education, in long-term human development help countries to overcome the crises and to make substantial steps in economic growth.

3. Public Investment in Social Sphere and Human Development at the Current Stage

In the knowledge-based economy, the most important component of the national wealth is human capital. Currently particular importance is given to the measurement of human development. In order to assess human development of the country or region it is necessary to define indicators, which would allow to evaluate country's «intangible» wealth. Under the initiative of the United Nations annually the researches and measurements of human development are carried out, and reports about achievements in the sphere of human development are published for the world community and at the regional and

national levels. These researches allow to assess the country's place in the world rankings and to analyze changes that have occurred in human development over a certain period. Experts of the United Nations' Development Program have developed the conceptual approach to human development, published in the World Human Development Report, in 1990. In order to assess socio-economic development in the report has been proposed the Human Development Index.

The Human Development Index is a composite indicator. It includes such characteristics as life expectancy at birth, mean years of schooling, expected years of schooling, gross national income per capita. Higher values of these components means a higher total index, which indicates conditions that are more favorable for human development. Countries are ranked in terms of their current human development. According to the Human Development Index, countries are divided into four groups: with very high value of the index, with a high value, with middle and low values of the Human Development Index. The highest level of the Human Development Index in 2013 was 0,944 for Norway. The Table 1 shows the dynamics of the Human Development Index in the countries of the Group of Seven and in Russia in 2000-2013.

Table 1. The dynamics of the Human Development Index in 2000-2013.

Rank in 2013	Country	The Human Development Index			
		2000	2005	2010	2013
5	USA	0.883	0.897	0.908	0.914
6	Germany	0.854	0.887	0.904	0.911
8	Canada	0.867	0.892	0.896	0.902
14	United Kingdom	0.863	0.888	0.895	0.892
17	Japan	0.858	0.873	0.884	0.890
20	France	0.779	0.848	0.879	0.884
26	Italy	0.825	0.858	0.872	0.872
57	The Russian Federation	0.717	0.750	0.775	0.778

Source: United Nations Development Programme// Human Development Reports <http://hdr.undp.org/en/content/human-development-index-hdi-table>

The dynamics of the Human Development Index for countries of the Group of Seven and Russia is positive in 2010-2013. Group of Seven countries are among the countries with very high values of human development. The leaders on this indicator among the surveyed countries in 2013 were the United States (0.914), Germany (0.911) and Canada (0.902). It should be noted that in the global rankings of human development leading position occupied Norway (0,944), Australia (0,933), Switzerland (0.917) and the Netherlands (0.915). Index of human development for the Russian Federation increased during the past decade. The Russian Federation is included in the group of countries with high human development and takes 57th place in the global rankings on this indicator. In 2000, the Human Development Index was equal to 0,717. In the global competitiveness report in 2013, the Human Development Index was set at 0,778. Important changes happened with indicators of the Human Development Index. The dynamics of indicators of the Human Development Index, during the years 2000-2013, are presented in the Figure 1.

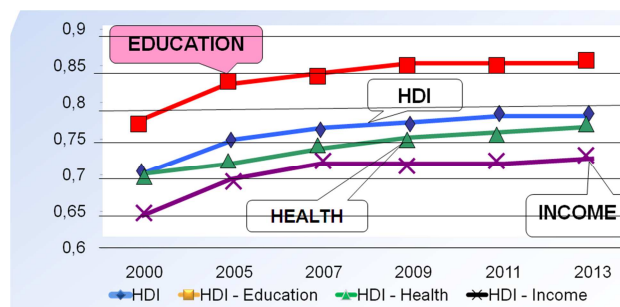


Figure 1. The dynamics of the Human Development Index indicators' in the Russian Federation.

In the period under review in Russia, there was an increase of all human development components. The Human Development Index rose to 0.061 in 2013 compared with 2000. Income per capita rose during the period, the country also provided public goods such as health care and education. The most significant values are observed for education. Currently in Russia, modernization is carried out in the areas of social services such as education and health care. The purpose of modernization is to optimize budget expenditures and control the quality of service. The goals of human development and modernization are very closely related. Modernization is the key priority of social and economic development and prudent government policy should be the main mechanism to achieve sustainable development.

The budget of the Russian Federation is based on the existing programs. Social service programs are concentrated in the block «New quality of life». This block is represented by such programs as: Development of Health, Development of Education, Social support of citizens, Accessible Environment, Providing affordable and comfortable housing and communal services for Russian citizens, Promoting employment, Provision of the public order and actions against the crime, Combating illegal circulation of drugs, Protecting the population and territories from emergency situations, fire safety and safety on water objects, Development of Culture and Tourism, Environmental protection, Development of physical culture and sports. The volume of federal budget allocations for the implementation of government programs in the fields of human development, such as social support, education, health, employment and physical culture and sports, are presented in the Table 2.

Table 2. Federal expenditure on the government programs in the fields of human development in 2013-2017 (billion rubles).

Designation	2013	2014	2015	2016	2017
Social support of citizens	925,5	1 088,7	1 161,2	1 178,1	1 257,1
Development of Education 2013 – 2020	506,2	418,9	441,5	466,1	511,5
Development of Health	-	357,2	260,5	262,9	263,3
Promoting employment	71,6	75,8	75,9	75,7	66,6
Development of physical culture and sports	67,4	63,5	65,0	64,9	13,9

Source: Portal of the state programs of the Russian Federation <http://programs.gov.ru>

The aim of the State Program «Social support of citizens» is creation of conditions for the growth of citizens' welfare and increasing the availability of social services. Program's implementation is planned for 2013-2020. Budgetary allocations for this program are 9472.8 billion rubles. This value is the highest among the analyzed programs. The State Program «Social support of citizens» includes four sub-programs: «Social support development of the certain categories of citizens», «Modernization and development of social services», «Social support improvement for families and children» and «Improving the efficiency of the state support of socially oriented non-profit organizations». The State Program «Development of Education» for 2013-2020 is realized in three stages. The goals of the state program is to provide high quality of Russian education in accordance with the changing needs of the population and the future tasks of the Russian society and the economy; improving the efficiency of the implementation of youth policy in the interests of innovative people-centered development. The federal budget allocations for implementation of the state program will amount to 4134.3 billion rubles. The most significant funds are allocated for development of vocational education, they will make 3812.8 billion rubles. The purpose of the program «Development of Health» is the development of public health to ensure access to care and improving the efficiency of health services. The federal budget allocations for the implementation of the activities of this program are 2038.1 billion rubles. The program «Promoting employment» is divided into three subprograms: «Active employment policy and social support for the unemployed», «External labor migration» and «Development of labor market institutions». Budgetary allocations for this program are 579.0 billion rubles. The main part of the budget allocations are planned under the subprogram «Active employment policy and social support for the unemployed». The amount

of expenditures for this program is equal to 350.2 billion rubles. The state program «Development of physical culture and sports» is implemented in 2013 - 2020 years, in a single step. The main objectives of the program is the creation of conditions enabling citizens to regularly engage in physical culture and sports; increase the competitiveness of Russian sports on the international arena. The budgetary allocations based on forecast prices for the relevant years are 321.7 billion rubles.

For each of the programs it is developed a set of indicators reflecting the results of their implementation. For example, indicators for the program «Development of Education» include an increase in the access to preschool education, rise of the additional education programs' coverage, an increase in the average score of the unified state examination, etc. The effectiveness of the state program «Development of Health» is determined by achievement of the following indicators: increasing public satisfaction with the quality of medical care, increasing social attractiveness and level of medical personal quality, establishment of unified state priorities in the field of biomedicine, etc. It is planned to achieve the following indicators as a result of the program «Promoting employment» by 2020. It is planned to increase the number of employed citizens who applied to the employment services from 65% to 70%, reduce long-term unemployment from 12% to 5%, increase the maximum amount of unemployment benefit to the subsistence level. The program «Development of physical culture and sports» provides for the establishment of new and developing of existing training centers, reconstructions of sports infrastructure, more efficient use of sports facilities, etc. Analysis of indicators of the state programs shows positive outcomes. Consider for example the indicators of the state program «Social support of citizens» (Figure 2).

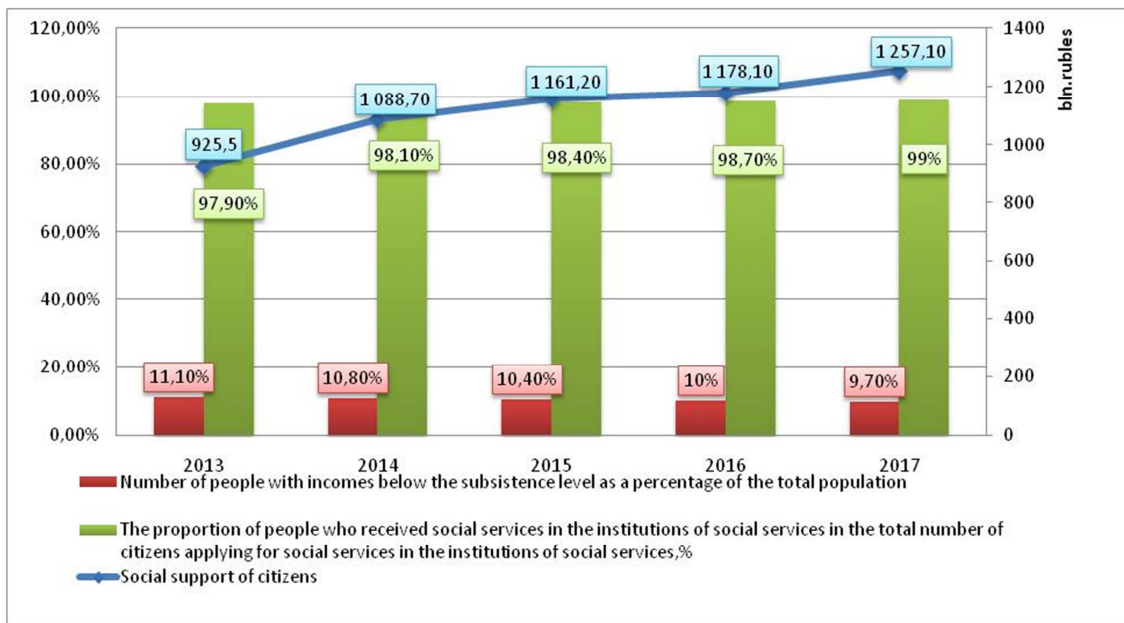


Figure 2. The indicators the state program «Social support of citizens».

Financing of the state program «Social support of citizens» increased from 925.5 billion dollars in 2013 to 1161.2 billion dollars in 2015. Further growth of budget allocations for the program is planned. The program have several target indicators. For example, the first indicator is decrease in the number of people with incomes below the subsistence level as a percentage of the total population from 11.1% to 9%. The following indicator is increase in the proportion of people who received social services in the institutions of social services in the total number of citizens applying for social services in the institutions of social services from 97.9% to 100%. Currently there is a decrease in poverty among recipients of social support based on extending the application of the principle of its address. Number of people with incomes below the subsistence level gradually decreases from 11.1% in 2013 to 10.4% in 2015 and it is expected further decline in the index value. The proportion of people who received social services in the institutions of social services in the total number of citizens applying for social services in the institutions of social services is gradually increasing. It is connected with program's financing and with the increase in social services from socially oriented non-profit organizations.

It should be noted that the purpose of the social sphere modernization and human development are closely related. Such factors as social support, health and education have a direct influence on human capital. Implemented measures of the social sphere's state support and the reforms allow to develop socially significant services, to correlate financial resources with the results at the each stage of the program's realization. Allocation of the necessary budgetary resources for the implementation of social measures allows achieving the planned levels of target indicators and increase Russia's place in the international rankings in terms of human development.

4. Conclusion

The increasing interdependence of national economies, the changing role of the factors in achieving sustainable economic growth in the innovation economy led to an increase in the value of the human factor in the economic growth of the country. Production and application of knowledge depends on human capacities. Providing opportunities for human development is a significant issue for modern society. Social sphere is important for the formation of human capital, for example, such branches as social support, health care, education. The priorities for countries in order to accelerate human development progress include enhancing equity, enabling voice and participation, managing demographic change, development of education and health and confronting environmental pressures. The date in the article presented the Human Development Index dynamics' for the Russian Federation and countries of the Group of Seven. The date show that the Human Development Index demonstrates progress in the analyzed countries. This improvement is

achieved by increasing the values of the index's components. Currently in the Russian Federation, large-scale social reforms are carried out in order to set a strong focus of State on human development. The main aim of these reforms is to improve the quality of social services and make changes in the budgetary allocations' system. Modernization programs implemented, for example, in such areas as health, education and social protection. Each program includes targets and indicators of their achievement. The programs represent a medium or long-term planning framework to achieve human development goals. Long-term investment in human development along with the control of the services' quality are carried out with the purpose to improve positions of the country on the world stage and strengthen its competitiveness.

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