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## **THE IMPORTANCE OF HUMAN CAPITAL IN SUSTAINABLE ECONOMIC DEVELOPMENT PROVIDING: EUROPEAN EXPERIENCE AND THE LEGAL ASPECT**

**Abstract.** In the current conditions of globalization changes, increased competition, informatization of all spheres of public life, strategic development direction of Ukraine is to develop innovative and investment socially oriented model of sustainable economic development. Under such conditions, human capital is a key factor in enhancing the competitiveness of the national economy; it is an asset that capable to provide the receiving of competitive advantage through the use of unique human capabilities that in today's information society is a driving force in building and providing sustainable economic development. The accumulation and reproduction of human capital should be considered as a strategic resource capable to ensure the sustainable socio-economic and spiritual-intellectual development of society. It is relevant to study and use European experience in implementing an action plan to ensure the sustainable development of the European Union (EU) through the development and accumulation of human capital, in particular the «Europe 2020» strategy. It is found out that Ukraine has its own programs, strategies and action plans to ensure sustainable economic development based on human capital. In order to determine the level of development of human capital of Ukraine, the country's position on this indicator in various international rankings was analyzed. It is found out that Ukraine has formed national legislation based on the Constitution of Ukraine, laws of Ukraine, presidential decrees, CMU decrees, international agreements and other documents adopted by state authorities and provide for the formation, development, reproduction of the basic components of human capital. Priority directions of ensuring the liberal-democratic legal field of human capital development in the conditions of innovation, technical and demographic challenges, development of the information society and digital economy, globalization and intensification of international competition have been identified.

**Keywords:** human capital, investments, legislative support, sustainable development, globalization.

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## **ЗНАЧЕННЯ ЛЮДСЬКОГО КАПІТАЛУ В ЗАБЕЗПЕЧЕННІ СТАЛОГО ЕКОНОМІЧНОГО РОЗВИТКУ:**

### **ЄВРОПЕЙСЬКИЙ ДОСВІД І ПРАВОВИЙ АСПЕКТ**

**Анотація.** У сучасних умовах глобалізаційних змін, посилення конкуренції, інформатизації всіх сфер суспільного життя стратегічним напрямом розвитку України є розбудова інноваційно-інвестиційної соціально спрямованої моделі сталого економічного розвитку. За таких умов ключовим фактором підвищення конкурентоспроможності національної економіки виступає людський капітал як актив, що здатний забезпечити отримання конкурентних переваг на основі використання унікальних людських здібностей і можливостей, що в сучасних умовах інформаційного суспільства виступає рушійною силою у розбудові та забезпеченні сталого економічного розвитку. Нагромадження та відтворення людського капіталу виступає стратегічним ресурсом, що здатний забезпечити сталий соціально-економічний і духовно-інтелектуальний розвиток суспільства. Актуальності набуває дослідження та використання європейського досвіду щодо реалізації плану дій на шляху забезпечення сталого розвитку країн — членів Європейського Союзу (ЄС) на основі розвитку та нагромадження людського капіталу, зокрема стратегії «Європа 2020». Установлено, що в Україні існують власні програми, стратегії та плани дій щодо забезпечення сталого економічного розвитку на основі людського капіталу. З метою визначення рівня розвитку людського капіталу України здійснено аналіз позиції країни за цим показником у різних міжнародних рейтингах. Установлено, що в Україні сформоване національне законодавство, яке ґрунтується на Конституції України, законах України, указах Президента України, постановах КМУ, міжнародних угодах та інших документах, що ухвалені державними органами влади і забезпечують формування, розвиток, відтворення основних складових людського капіталу. Визначено пріоритетні напрями забезпечення ліберально-демократичного правового поля розвитку людського капіталу в умовах інноваційно-технічних і демографічних викликів, розвитку інформаційного суспільства та цифрової економіки, глобалізації та посилення міжнародної конкуренції.

**Ключові слова:** людський капітал, інвестиції, нормативно-правове забезпечення, сталий розвиток, глобалізація.

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## **ЗНАЧЕНИЕ ЧЕЛОВЕЧЕСКОГО КАПИТАЛА В ОБЕСПЕЧЕНИИ УСТОЙЧИВОГО ЭКОНОМИЧЕСКОГО РАЗВИТИЯ: ЕВРОПЕЙСКИЙ ОПЫТ И ПРАВОВОЙ АСПЕКТ**

**Аннотация.** В современных условиях глобализационных изменений, усиление конкуренции, информатизации всех сфер общественной жизни стратегическим направлением развития Украины является развитие инновационно-инвестиционной социально направленной модели устойчивого экономического развития. При таких условиях ключевым фактором повышения конкурентоспособности национальной экономики выступает человеческий капитал как актив, способный обеспечить получение конкурентных преимуществ на основе использования уникальных человеческих способностей и возможностей, который в современных условиях информационного общества выступает движущей силой в развитии и обеспечены устойчивого экономического развития. Накопление и воспроизводство человеческого капитала выступает в качестве стратегического ресурса, который способен обеспечить устойчивое социально-экономическое и духовно-интеллектуальное развитие общества. Актуальность приобретает исследование и использование европейского опыта по реализации плана действий на пути обеспечения устойчивого развития стран — членов Европейского Союза (ЕС) на основе развития и накопления человеческого капитала, в частности стратегии «Европа 2020». Установлено, что в Украине существуют собственные программы, стратегии и планы действий по обеспечению устойчивого экономического развития на основе человеческого капитала. С целью определения уровня развития человеческого капитала Украины осуществлен анализ позиции страны по данному показателю в различных международных рейтингах. Установлено, что в Украине сформировано национальное законодательство, основанное на Конституции Украины, законах Украины, указах Президента Украины, постановлениях КМУ, международных соглашениях и других документах, принятых государственными органами власти, которые обеспечивают формирование, развитие, воспроизводство основных составляющих человеческого капитала. Определены приоритетные направления обеспечения либерально-демократического правового поля развития человеческого капитала в условиях инновационно-технических и демографических вызовов, развития информационного общества и цифровой экономики, глобализации и усиления международной конкуренции.

**Ключевые слова:** человеческий капитал, инвестиции, нормативно-правовое обеспечение, устойчивое развитие, глобализация.  
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**Formulation of the problem.** In the current conditions of innovation and information development, the need to implement the main directions of Ukraine's European integration strategy, to ensure social, economic, scientific modernization, there is a need to provide the development and investment reproduction of human capital, as the main asset, which is the basis for ensuring sustainable development of the economy on the basis of production and usage of intellectual technologies and innovations, informatization of all spheres of public life. The transition of Ukraine to the information society, and next to the knowledge economy requires the innovative development of the economy in order to prevent further lagging behind the developed countries, enhancing international competitiveness in the world market, improving the quality of life, the use of modern information-communication, intellectually-innovative technologies that are capable to reduce production costs or improve service quality.

**The aim of the study.** The aim of the scientific article is to study the role and importance of human capital in the implementation of the concept of sustainable development of the country on the basis of the analysis of European experience and legislative support.

**Main results of the study.** Under such conditions, human capital should be regarded as a key factor in implementing the UN sustainable development concept [1]. According to which a person should be the in the spotlight both nationally and internationally. Human capital is considered to be a factor that provides sustainable development, and its accumulation is the basis for continued technological progress, a mean that can reduce economic deficits and ensure the optimal transformation of natural resources into production ones through the use of intellectual and innovative technologies.

Under these conditions, the development, accumulation and reproduction of human capital appears as a strategic resource capable to ensure the sustainable socio-economic and spiritual-intellectual development of society. The particular relevance is the necessity to study the European experience in implementation the action plan to ensure the sustainable development of the of the European Union (EU) countries on the basis of the development and accumulation of human capital.

The analysis of scientific literature shows that the key importance of human capital in ensuring sustainable development has been reflected in the EU 2020 model of the Europe 2020 strategy, which was updated in 2010 and was aimed to develop an economic development strategy for the next 10 years — «Europe 2020 : a strategy for smart, sustainable and inclusive growth» [2].

The strategy's objective was to achieve a long-term improvement in the quality of life through the formation of sustainable communities capable of managing and effectively usage and consumption of natural resources, enhancing the environmental, social, innovation potential of the economy, prosperity and unity of society. The main objective of the strategy is to improve the living conditions of the person on the basis of ensuring economically efficient, socially just and economically pure sustainable development of the state. The Europe 2020 strategy is based on three key elements:

- Smart growth — developing an economy based on knowledge and innovation.
- Sustainable growth — promoting a more resource efficient, greener and more competitive economy.
- Inclusive growth — fostering a high-employment economy delivering economic, social and territorial cohesion [2].

In order to ensure the implementation of the strategy, a number of necessary measures have been developed, including:

- an innovation union creation by combining efforts for production and implementation of innovations in the productive and non-productive spheres, which will help to increase jobs and grow the economy;

- to improve young people's entry into the labour market through integrated action covering i.a guidance, counselling and apprenticeships;
- promotion of the development of digital technologies: widespread use of high-speed Internet, development of digital commercial space, deployment and usage of modern accessible online services (e.g. e-government, online health, smart home, digital skills, security);
- expedient use of resources in Europe — rational use of exhaustive resources, transition to renewable energy sources, modernization of the transport sector, etc.;
- a plan creation for the development of new abilities and jobs based on the modernization of labor markets, promotion of labor mobility, creation and provision of new opportunities for the development of abilities, skills, acquisition of new knowledge for employment;
- implementation of a European policy on poverty alleviation, which is based on economic growth increase and the population employment rate increase on EU territory [2].

So, we can state that in the current «Europe 2020» strategy, the concept of human capital is key to achieve the goals set.

Ukraine has also adopted a sustainable development strategy «Ukraine 2020», approved by the presidential decree in January 2015 [3].

The strategy defines the purpose, vectors of movement, main priorities and ways of their achievement in social, economic, legal, political, defense spheres, defines four vectors of perspective development of the country:

- development vector — ensuring sustainable development through structural reforms and, as a consequence, improving quality and standard of living, economic development based on innovation;
- security vector — providing guarantees for the security of the state, economic entities, citizens, private property and investments;
- responsibility vector — guaranteeing the right of every citizen regardless of gender, age, race, religion, language, belief, ethnic origin, etc. to receive high quality education, health care social protection and security, other state guaranteed services;
- pride vector — ensuring mutual respect, tolerance in society, pride in one's own state, its history, language, culture, science, sport.

The implementation of the four vectors of prospective development provides holding 62 reforms, however, it should be noted that most experts are skeptical of this strategy, since the number of reforms and programs that are planned to be implemented within the specified period is large enough that can negatively affect the national government and slow down economic growth, requires considerable financial and human resources.

At the same time, human capital development is mentioned as a major result of the Government's activities in the mid-term priority agenda of the Government until 2020 [4], according to which one of the main tasks of the CMU is to ensure the improvement of standard of living of the population through sustainable economic development, in particular on a base of human capital development through reforms in education, health, social protection and welfare. The main priorities which are identified in the plan, relate to the need to reform the health care system, the system of education, implement pension reform and create an effective system of social support and assistance to the population. Indicators for achieving the goals set by the Government should be: an increase in the human development index, including entry to the top 50 countries, a 15% poverty reduction by OECD methodology and a 10% mortality rates reduction.

In order to better understanding the situation, it is necessary to analyze Ukraine's position by the indicator of the human capital development in international rankings.

The uncertainty of the sustainable economic development strategy of Ukraine is evidenced by the assessments of the world ranking of national economies, which is published annually by the World Economic Forum (WEF). The results of this study are presented in «The Global Competitiveness Report. World Economic Forum 2017-2018». According to the 2017 Report, Ukraine has narrowed its position by 4 points and ranked 81<sup>st</sup> place in the Global Competitiveness Index (GCI). The worst results were by the Labor Market Efficiency component (minus 13 points). Also, Ukraine has lost its positions in the evaluation of the innovative component of the Index — (minus 9 points), infrastructure (minus 3 points)

and the component characterizing higher education and training (minus 2 points) [5]. Stable GCI leader Countries are Switzerland, Singapore, USA, Netherlands, Germany (*Table 1*).

Table 1

Ranking of countries by components of the GCI in 2017—2018 (rank among 137 countries) [5]

Ranking	Country	GCI	GDP per capita, USD	Macroeconomic stability	Health care and primary education	Higher education and training	Labor market efficiency	New technologies providing
1.	Switzerland	5,86	79,242.3	3	2	5	1	2
2.	USA	5,85	57,436.4	83	29	3	3	6
3.	Singapore	5,71	52,960.7	18	3	1	2	14
4.	Netherlands	5,66	45,282.6	14	4	4	13	3
5.	Germany	5,65	41,902.3	12	13	15	14	8
6.	Hong Kong	5,53	43,528.0	6	26	14	4	9
7.	Sweden	5,52	51,164.5	4	20	18	20	5
8.	United Kingdom	5,51	40,095.9	68	17	20	6	4
81.	Ukraine	4,11	2,194.4	121	53	35	86	81

A characteristic feature of the leading countries in the IGC is the predominance in the structure of production of innovative and high-tech work, the level of technology, which is a sign of the formation and development of highly skilled human capital of the information society. In addition, WEF analyzes the level of human capital development based on the calculation of the Global Human Capital Index. According to the WEF Report, only 25 countries in the world use more than 70% of their human capital, about 50 countries use about 60—70%, 41 countries use 50—60% of their human capital, and the Global Human Capital Index of Ukraine in 2017 was 71, 27 or 24 place in the ranking [6]. This index consists of four main blocks, which are rated by age:

1. capacity (mental abilities): literacy of the population, coverage level of primary, secondary and higher education;

2. deployment: labour force participation rate, employment gender gap, unemployment rate, underemployment rate;

3. development: primary education enrolment rate, quality of primary schools, secondary education enrolment rate, secondary enrolment gender gap, vocational education enrolment rate, tertiary education enrolment rate, skill diversity of graduates, quality of education system, extent of staff training;

4. know-how: high-skilled employment share, medium-skilled employment share, economic complexity, availability of skilled employees

The results of calculations of the ranking on the global index of human capital are represented in the table (*Table 2*).

Table 2

Global Human Capital Index 2017

Country	Total Index		Capacity		Deployment		Development		Know-how	
	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score
Norway	1	77.12	13	80.46	24	73.18	6	82.63	6	72.22
Finland	2	77.07	8	81.05	68	65.09	1	88.51	2	73.62
Switzerland	3	76.48	28	76.36	42	69.12	2	84.87	1	75.57
USA	4	74.84	22	78.18	43	68.72	4	83.45	13	68.99
Denmark	5	74.40	16	79.37	34	71.41	14	78.65	17	68.18
Germany	6	74.30	29	76.33	40	69.52	12	79.38	7	71.96
New Zealand	7	74.14	18	78.92	27	72.76	8	80.38	22	64.50
Sweden	8	73.95	31	76.21	39	69.60	16	77.10	3	72.89
Ukraine	24	71.27	5	81.70	31	72.65	38	71.47	38	59.26

Source: [6].

According to the results of the table it can be concluded that the highest rating of Ukraine by the sub index of capacity is the 5th place, the worse situation is with sub indexes development and know-how — 38th place. The results of the rating indicate the existence of competitive advantages for the educational component of human capital and at the same time weakness of all other components, which in turn requires adjustment measures to improve the situation. At the same time, it should be noted that in 2018 Ukraine worsened its ranking according to the index of human capital, which was 76.21 and was almost at the level with such countries as Poland, Slovakia, Czech Republic, Israel, South Korea, at the same time, the average GDP per capita in these countries is about 30 thousand dollars, while in Ukraine — only 8970 dollars, that is, more than three times less [7].

In addition, it is necessary to analyze the UNDP's Human Development Index (HDI), which is determined on the basis of three basic human needs: living a long and healthy life, access to education, and access to decent living standards. Based on these needs, an indicator of human development is determined, including life expectancy, an integral indicator of educational attainment, and a standard of living based on real GDP per capita. Based on the analysis of the HDI of Ukraine in the dynamics we can conclude that the country belongs to the countries with high level of human development, however, its place is one of the lowest among the EU countries (*Fig.*).

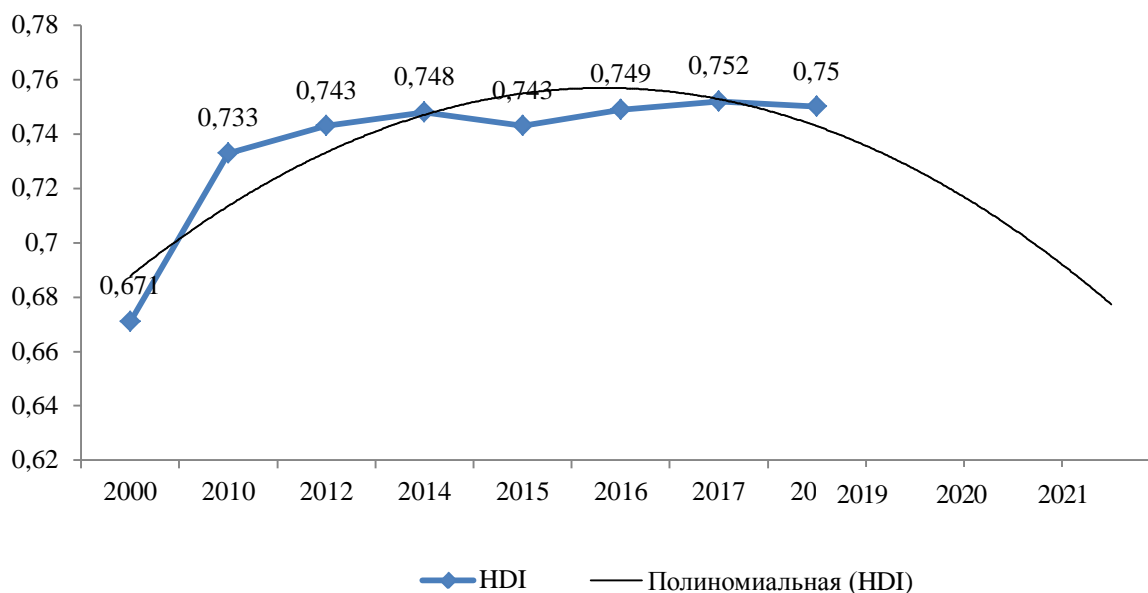


Fig. Dynamics and forecast indicator value of the HDI of Ukraine

According to the report Ukraine ranked 88th position among 189 countries in the world with an indicator value (HDI) 0.750 in 2018, while in 2017 the HDI was 0.751 [8].

From the above figure 1 we can conclude that there is a likelihood of further reduction of Ukraine's HDI under conditions of the absence of reforms which were worked out in the middle-term priority plan of the Government until 2020 and in «Ukraine 2020» Strategy.

At the same time, it should be noted that the analysis of legislative acts of Ukraine testifies to the existing national legislation, which ensures the formation and development of the basic components of human capital. In particular, in the Constitution of Ukraine the person is recognized as the highest social value Art. 3, recognized the right of every citizen to have an education Art. 53, health care, medical care and health insurance Art. 49 [9]. A number of legislative acts have been adopted to ensure the formation, development, reproduction of the human capital of Ukraine, in particular the Law of Ukraine «On Education» [10], the Law of Ukraine «Fundamentals of Legislation of Ukraine on Health Care» [11], the Family Code of Ukraine (No. 2947- III) [12], the Law of Ukraine «On Employment» [13], the Law of Ukraine «On Basic Principles of Information

Society Development in Ukraine for 2007—2015» [14], a number of decrees of the President and CMU Resolutions on Human Capital Development.

The core of human capital are the knowledge, skills and abilities that can create added value for the economy, material and social effects for the individual. That's why formal and non-formal education is a field of human capital production, and investment in it is considered to have long-lasting effects. There is an opinion that education affects the level of income of a person by 60% and, as a consequence, has a clear impact on the overall level and quality of life of the population. That is why the analysis of normative and legal support of functioning of the sphere of education, as a base of formation and accumulation of human capital, its high level of competitiveness becomes especially relevant.

The main legislative act in the field of education is Law of Ukraine «On Education», which provides for the regulation of social relations in the field of education, upbringing, scientific, professional, and cultural training of citizens of Ukraine [10]. Art. 78 of the Law of Ukraine «On Education» defines the amount of financing of education in the amount of 7 % of GDP, however, it should be noted that the real volumes do not correspond to the declared ones, for example in 2017 the sphere of education was financed from the state budget in amount of 177,7 billions UAH or 6% of GDP, in 2016 — 5.4% of GDP, in 2015 — 5.7% of GDP [15, p. 132].

At the same time, in addition to the above mentioned law, there are a number of state education development programs, CMU resolutions and presidential decrees.

Special attention should be paid to the Law of Ukraine «On Higher Education» [16], as higher and vocational education provide the capitalization of human potential in the context of the consistency of the market of educational services to the labor market and employment of graduates by profession. Otherwise, human capital is transformed into a zero asset, no return on investment occurs, and the individual is forced to obtain another education for the purpose to find employment and obtain higher social and economic effects.

The main problem of the modern system of vocational and higher education is that it is oriented in its activity not to the labor market, but to the educational services market in its simplest sense — the scope and profile of specialists' training meet the demands of the society on educational services without taking into account the needs of the labor market. As a result, there is an imbalance and mismatch between the education market and the labor market due to the lack of interconnection.

In January 2017, the Law of Ukraine «On Amendments to the Law of Ukraine» On Higher Education «Regarding Employment of Alumni» came into force [17], according to which it was cancelled the condition that determined that the graduates of high education institution have to work out for their education (the preparation) which was carried out by the state. In other words it is mean that the state practically removed itself from employment of graduates, they are free to choose a place of work. Thus, public funds are used for training professionals who are not in need at the labor market, that is mean that public funds are ineffective, human capital is converted to zero asset or used unproductively.

The above made conclusions can be testified by the fact that almost every second Ukrainian who has received higher education does not work by profession [15, p. 122]. According to research by the Chartered Institute of Personnel and Development (CIPD), Ukraine ranks fifth position among European countries, where graduates do not work in the specialty (by profession).

A noteworthy the study by the Studway portal [19], according to which almost half of Ukrainians did not find a job according to the specialty they gained at the university, 65% of Ukrainians work in the specialty (by profession) but have a desire to change their profession, 32% do not work in the specialty at all, among the main reasons for this situation are low wages in the specialty, complexity or even inability to get a job in the specialty, etc.

It should be noted that a number of steps have been taken in 2018 to reform education funding, including the creation of a new model of higher education funding that would allow more efficient use of budgetary funds. Amendments to the Budget Code 2018 set out the principles for the distribution of public funding between the higher education institution (HEI) of the 3rd — 4th



accreditation level on the basis of the development of a formula that would take into account the number of students, the cost of educational services in different specialties, the scores of External Independent Evaluation (EIE) of applicants (entrants) and quality indicators of the educational and scientific activities of the HEI. At the same time, experts point out the existence of a number of shortcomings in the developed formula and the need for its improvement [15, p. 146].

The Law of Ukraine «On the State Budget for 2018» also had risks for the formation and development of human capital [20], for example Art. 24 obliged local authorities to provide priority funding for colleges at the expense of local budgets or universities, such steps can lead to further significant reduce of the number of vocational schools; to the degradation of the labor market, because recent analytical studies show that the labor market chronically lacks highly skilled workers, as a result, the absence of domestic highly skilled specialists leads to the invitation of foreigners to work in Ukraine; migration volumes increase. In addition, such actions violate the Constitution of Ukraine in terms of accessibility of education, because due to lack of funds in local budgets, local authorities may close vocational education institutions, and it should be noted that different cities have different levels of budget revenues

**Conclusions.** Therefore, based on the conducted research, it can be concluded that the reform of the human capital development system continues in Ukraine on the basis of the improvement of legal and regulatory support through the implementation of strategies and reforms in the key spheres which provide the formation, development and reproduction of human capital. Such measures are driven by globalization processes and the development of STP, that is why investment in human capital is of particular importance, as a high level of education is capable to provide high social effects for both individuals and society, to ensure economic growth and transform education into a profitable investment.

Domestic legislative support for the development of human capital is based on the Constitution of Ukraine, laws of Ukraine, presidential decrees, CMU decrees, international agreements and other documents adopted by state authorities. However, it should be noted that there are shortcomings in the newly adopted legislative documents and regulations, in particular, the absence of a human capital development strategy in the Ukraine 2020 strategy, non-compliance by the subjects of economic relations with the rules of the current legislation, the possibility of violating the Constitution of Ukraine by adopting controversial amendments to the Budget Code 2018, inability to exercise the statutory rights and guarantees of citizens for education, health care, social protection and welfare, etc.

During the years of independence, considerable work has been done in Ukraine to create the liberal-democratic legal framework for the development and reproduction of human capital, but it should be noted that in today's dynamic changes and development of the digital economy, it is necessary to ensure the quality increase of human capital under conditions of innovation, technical and demographic challenges; to create a basis for technical and technological modernization, digitization, increase of labor productivity and quality of workplaces; to provide an understanding of the importance of education as a tool for maintaining social stability in a highly unpredictable and uncertain future.

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