Historical Evolution of Economic Category “State Financial Reserves”

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Abstract:

The article views the issues of financial theory, related to historical development of scientific category “state financial reserves”. Using the principles of scientific research – unity of the logical and the historical, periodization and succession – the author determines stages of evolutorial development of the studied category. As a result of the research, the author concludes that history of evolution of economic category “state financial reserves” is rooted in Ancient Rome, and nowadays this notion has not lost its actuality. This shows high effectiveness and universality of instrumentarium of state financial reserves and their applicability for various types of economic systems. Effective use of state financial reserves requires evaluation of long-term perspectives of influence of this tool on economic system and coordinates directions of the use of state financial reserves with priorities of state policy.

Key Words: Historical Evolution, State Financial Reserves, Economic Category, Financial Theory

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1. Introduction

Under the conditions of instability and crisis in the global economy, national governments strive for search and use of various means of preservation of stability of their national economic systems. One of the most popular tools for this is formation of state financial reserves in the period of economic growth, when there is excess of assets of state budget, which could be put into reserve without any damage to realization of planned state programs and under the condition of fulfillment of all state social responsibilities.

During the period of recession, accumulated financial resources are directed for supporting the top-priority spheres of economy for preservation of national production and prevention of massive bankruptcy and unemployment. Despite the large interest to state financial reserves, this economic category is not properly studies from evolutional point of view, which hinders effective use of instrumentarium of state financial reserves. This causes the necessity for conduct of additional research in this sphere and determines actuality of this article.

2. Method

Up to this time, the modern financial theory viewed the problems of financial reserves primarily at micro-level, in regard to activities of separate economic subjects. This explained small number of domestic publications and studies, devoted to financial reserved at macro-level, i.e., reserves which are usually defined as state reserves.

Only over the recent period, the number of scientific research grew substantially – in our opinion, it was caused by the fact that traditional structure of state reserves was supplemented by the Stabilization Reserve, which four years after its creation was divided into the Reserve Fund and the Russian National Wealth Fund (Fund of Future Generations).

This gave reasons for more detailed study of theories, tendencies, and conditions which influence formation of diverse state reserves, classification of their types, ways of investment and formation, modeling, and forecasting of their required reserves.

Among the researchers that studies the above problems are the following scientists: (Demirmen, 2013), (Zhou, 2009), (Rockoff, 2015), (Morelli et al., 2015), (Vortelinos, 2014), (Hayo et al., 2014), (Carpenter et al., 2014), (Kohn, 2013), (Bassetto & Messer, 2013), etc. At the same time, the task of description of economists’ opinions on the nature of reserving from the point of view of their
evolution remains topical. It is known that works of A. Smith, K. Marx, F. Engels, T. Hobbs, J. Locke, Antoine de Montchrestien, J. Lauderdale, E. Hansen, R. Maltus, J. Hobson, J. Akerlof, S.Y. Vitte, etc. contain various approaches to determination of main attributes of reserves and conditions which led to their formation at micro- and macro-levels.

3. Results
Our studies show that evolutional environment for generalization of various opinions as to reserving can be conventionally divided into several periods (Fig. 1).
Back in III century B.C. in Rome, first bankers were chosen to receive free assets from state treasury as loans, and to borrow from them for social needs – which was the prototype of modern state financial reserves. (Rockoff, 2015). However, first attempts of theoretical realization of economic phenomena and economic structure of society were made by classical Greek thinkers (Xenophon, Plato, Aristotle). Aristotle was the first to analyze regularities of development of society and became the first economist in the history of science. He opposed economy (from οίκος - household and νέμομαι - manage) and chrematistics (from Greek: χρηματιστική – property). He treated economy as natural husbandry activities related to manufacture of commodities necessary for living, and chrematistics – as an art of accumulating wealth, activities aimed at receiving profit, accumulation of wealth, especially, in the form of money (Morelli et al., 2015). Despite the study of connections between economic phenomena, Greek thinkers didn’t manage to create macro-economic doctrine which could be the foundation of economic policy of the state.

In XVI- XVIII centuries, scientific world of Europe treated wealth as money (gold), and wealthy states – as the ones that accumulated a lot of money. Such idea of wealthy state became the foundation of economic policy of “mercantilism” (Thomas Hobbs, John Locke, Antoine de Montchrestien, Francis Hutcheson).

Mercantilists were the first to introduce the problem of economic science of rational husbandry, as XV-XVIII centuries were characterized by creation of centralized national states with strong royal power which faced the task of financial management (problems of sources of income for satisfying the growing expenses of state for the purpose of providing the population with material well-being). Mercantilists considered the main goal of the state to be accumulation of money, and the main means for that to be the trade.

As mercantilism didn’t consider productive labor as a source of wealth, and consumers’ interests as moving force of production, this economic theory does not seem to be comprehensive. The most vivid examples of use of mercantilism are England and France. In late XVIII century, the Bank of England had a tradition, according to which all stock of metal money had to constitute no less than 1/3 of the sum of circulating notes, in order to guarantee their convertible nature (Vortelinos, 2014).

Importance of savings was shown by Adam Smith in his fundamental work “An Inquiry into the Nature and Causes of the Wealth of Nations” (1776). According to the author, as the accumulation of stock is previously necessary for carrying on this
great improvement in the productive powers of labour, so that accumulation naturally leads to this improvement.

“The person who employs his stock in maintaining labour, necessarily wishes to employ it in such a manner as to produce as great a quantity of work as possible. He endeavours, therefore, both to make among his workmen the most proper distribution of employment, and to furnish them with the best machines which he can either invent or afford to purchase.

His abilities in both these respects are generally in proportion to the extent of his stock, or to the number of people whom it can employ. The quantity of industry, therefore, not only increases in every country with the increase of the stock which employs it, but, in consequence of that increase, the same quantity of industry produces a much greater quantity of work. Such are in general the effects of the increase of stock upon industry and its productive powers (Smith, 1976).

Classics of Marxism-Leninism viewed reserve funds as one of general material conditions for expanded reproduction (Collected Works of Karl Marx, 1979). The sense of reserve funds was studies in detail by K. Marx in his work “Capital”, Book II “The Turnover of Capital”; he devoted a whole chapter “Reserve fund” to this topic, “The hoard, as which the surplus-value exists, is a fund for the accumulation of money, the money-form temporarily assumed by capital accumulation and to that extent a condition of this accumulation.”.

“However this accumulation-fund can also perform special services of a subordinate nature, that is to say can enter into capital’s movement in circuits without this process assuming the form of P ... P', hence without an expansion of capitalist reproduction.

If the process C' — M' is prolonged beyond its normal duration, if therefore the commodity capital is abnormally delayed in its transformation into the money-form or if, for instance, after the completion of this transformation the price of the means of production into which the money-capital must be transformed has risen above the level prevailing at the beginning of the circuit, the hoard functioning as accumulation-fund can be used in the place of money-capital or of part of it. Thus the money-accumulation fund serves as a reserve fund for counter-balancing disturbances in the circuit.” (Karl Marx, 1906).

It is obvious that K. Marx and F. Engels, as well as A. Smith, were more focused at the study of functions of reserving, applicable for particular enterprise (more specifically, for abstract reproduction process), despite the fact that eventually the generalization expanded to “quantity of useful labor in the country”. Existence or necessity of state reserves was not mentioned in these works.
Study of evolutional space states that the category of state reserves appeared only in early XX century. It allows determining opinions of Russian economists – in particular, study of funds of state financial reserves in Russia was conducted by S.Y. Vitte, who substantiated the necessity for their formation within rational financial policy of the state (funds of “budget excesses”) (Slonimskiy, 2015).

Vitte points out that reserve funds allowed finishing the construction of the Siberian railroad, strengthening the fleet, reweaponing the army, supporting the population during bad harvest (twice), bringing the money system into order, and, finally, covering large expenses in the Far East. “Concerning accumulation of free assets of state treasury – it is necessary due to large size of the Russian Empire and huge diversity of its particular locations. Local disasters are not rare in Russia” (Slonimskiy, 2015).

Back in XIX century in the foreign economic science, financial mechanism of formation of the funds of state financial reserves (so-called “redemption fund”) was developed by J. Lauderdale and perfected by his followed E. Hansen (supporter of the theory of “mixed economy”) (Hansen, 1964). The book by J. Lauderdale (1804) “An Inquiry into The Nature and Origin of Public Wealth and into the Means and Causes of its Increase” contains realistic approach to the issues that nowadays are very important – in particular, to problems of management of national debt and distribution of income [Lauderdale, 2015].

“What is affirmed, and what we have attempted to establish by argument, is that the old maxim, “a penny saved is a penny gained” is not applicable to public wealth; 2d, That a nation, in the circumstances and situation of the British Empire, cannot, with impunity, either forcibly abstract a sum so large as has been proposed, from expenditure in consumable goods of its produce and manufacture, or forcibly accumulate capital with such rapidity. For no nation, without injury to the progress of its wealth, can thus rapidly increase its capital, at the expense of abstracting annually so large a sum from expenditure in consumable commodities” (Lauderdale, 2015). According to Lauderdale, the process of saving (“accumulation of capital”) is very important, when there are proper investment possibilities, but “forced economy” with lack of investment possibilities reduces consumption and suppresses entrepreneurship.

Thomas Robert Malthus agrees with lord Lauderdale as to the issue of savings from increased income, as compared to savings from unchanged income (Malthus, 1836). “As soon as capitalists are able to save by means of sustainable and growing income, and not by means of reduction of expenses, i.e., as soon as national income... starts to grow annually and on a constant basis, then we shall be able to
reliably and effectively restore our lost capital through usual process of saving” (Malthus, 1836).

Malthus develops this idea and sets the differences between savings from increased income and “savings from reduced expenses”. The first is preliminary increase of income, which leads to increase of consumption and savings, which “can take place without any reduction of consumption, under the condition of preliminary increase of income”. The second is reduction of consumption function, which, according to his arguments, has to aggravate the disaster, not ease it (Malthus, 1836).

The problems of spending and saving were studied by John Hobson in “The Industrial System” (Hobson, 1910). According to him, in “stationary” economy, where all income is spent for consumer goods, there could be no problem of depression or unemployment. Still, modern industrial system is not stationary but changing, “and these changes are brought down to growth”.

Structure and work of modern industrial system should, if necessary, orient at growth of population, growing level of consumption, and at significant improvements of production methods. If it is necessary to create conditions for growth, the system should be able to produce increased number of production means. This supposes clean investments and private savings.

Final goal is brought down to “adding certain new types of capital (buildings, cars, raw materials), eventually increasing production machine of the system as compared to previous one… Right ratio of savings to expenses at any moment of time depends on the current state of means of production and consumption and on the probability of such changes of forms of labor or living that are able to provide social profit for new types of capital within near or foreseeable future” (Hobson, 1910).

In the first decade of XX century, the politician Theodore Roosevelt (USA), a follower of Hamilton’s theory, considered that the process of economic and political development of his country should be directed and regulated in general national interests. “Each individual’s property is subjects to general right of a group to regulate its use to the extent required by social well-being” (Schlesinger, 2003). In 1913, the USA passed the act on federal reserve; this document was based on the principle of hidden centralization, as financial reserves were begun to be concentrated in the Central Bank, due to which the banking system was named the federal reserve system.

World War I led to development of a new global economic system, a peculiar feature of which was the replacement of the gold standard by the system of note and paper money circulation. At the beginning of XX century, the quantitative theory of money that criticized their excessive emission became very popular in economic

Both directions of quantitative theory of money describe processes of correlation of money in circulation and issued commodities through equations of exchange with certain peculiarities. The theory of cash balance expands the Fisher equation with accounting of accumulation of money by economic subjects. However, both equations do not take into account possible inflows and outflows from financial reserves of the state, which would quantitatively change equations of exchange, offered by the authors, and, correspondingly, qualitatively – results of calculations on their basis.

In early 1930s, the policy of regulated money, in spite of all its drawbacks, helped England overcome the crisis and achieve stabilization. The stabilization was performed through two institutions – the Fund of currency stabilization (founded in 1932) and the Central Bank. The funds of currency stabilization were created in the USA (1934), France (1936), and other countries. The sense of methods, used by these funds for supporting stability of national currency, consisted in the fact that in case of excessive demand for currency in exchange for gold, the fund would increase the offer of currency for prevention of its rate’s growth.

A huge contribution into development of the theory of regulation of state finances was made by the British economist J.M. Keynes, the founder of modern macro-economic theory developer of scientific concept which explains the emergence of market fluctuations in economy, and the special program of government’s activities for overcoming depression and leveling the economic cycle (Hayek, 1931). Main theoretical ideas of Keynes were given in his work “The General Theory of Employment, Interest, and Money” (1936). The main idea of Keynesian economics – under the condition of monopolies’ power, there is no effective self-regulation of market economy, so there is a necessity for state regulation of economy for stabilization of economy.

According to Keynes, the main reason for economic crises is chronic lack of effective demand, which is a result of psychological inclination of people for increasing their consumption with growth of income, but to lesser extent than changes of income. He introduces such indicators as threshold inclination for consumption and threshold inclination to saving (as to population), with the help of which Keynes showed that multiplier effect of investments expresses quantitative dependence of the volume of national income (total demand) on the total sum of investments and distribution of gross income on consumption and savings.
The Keynes’s theory also studies the problem of balance of payment balance of state, which expresses correlation between the sum of all payment revenues and sum of payments, which are received and conducted by the state. According to him, there is a necessity for the state’s interference into regulation of external trade, as the level of country’s import is viewed as growing function of national income of this country, and export – as growing function of national income of another country. Keynes’s influence on development of economic theory is so huge that all further macro-economic studies were conducted in view of his theories. However, Keynes’s theory, like all preceding theories, does not take into account the possibility of accumulation (withdrawal from revenue) and inflow of previously reserved financial resources into economy, as well as influence of these processes on sustainability of national economy.

At the end of XX century, countries began forming special funds for state financial reserves of stabilization type. It is peculiar for such funds to be present in countries which export oil, as they are subject to cyclical fluctuations due to change of oil prices, and in the countries with economy that is dependent on certain natural resource.

Reduction of prices for resources that determine the economy of such countries leads to sharp devaluation of national currencies, reduction of GDP and budget revenues, and, consequently, to slowdown of socio-economic development. These funds are mechanisms of distributive money relations aimed for stabilization of budget expenditures, currency market, and the whole national money system under the condition of fluctuations of foreign trade situation. This led to modern theories of neo-classical macro-economics (Popkova et al., 2015a).

The mechanism of creation of state reserves is developed in works of modern economist J. Akerlof (theory of excess on the basis of concept of asymmetry of information and affirmation of insufficient reserves as a factor of non-optimality, Nobel Prize 2001) (Akerlof & Shiller, 2009). The author’s ideas consist in the fact that the structure of expenses and sensitivity of expenses influence the regime of accumulation in economy, so they influence the variant of financial policy (three variants in total: well-balanced budget, built-in flexible stabilizers, and compensation programs).

According to O.S. Sukharev, the theory of J. Akerlof evaluates short-term and, at best, mid-term macro-economic effects, while long-term perspectives is not accounted. Analysis of the work of J. Akerlof allows concluding that from the point of view of structure of expenses, the theory allows correcting and detalizing the instrumentarium of financial policy for the purpose of supporting the balance of this structure – in macro-economic aspect – depending on the tasks of stimulation of one or another sector or sphere of human activities. “Thus only the introduction of
“structural” aspect of macro-economic policy was conducted…” (Akerlof & Shiller, 2009).

Modern financial theory and practice try to determine principles that lie in the foundation of institutional reforms which are necessary for provision of development of the global economy and its stability. A group of scientists – financial experts of the UN (under the guidance of Stiglitz, 2009) – determine perspectives of reforming the global monetary and financial system, which changes ideas of the role and meaning of state financial reserved in future global economic development (official web-site of the UN General Assembly, 2015).

Among recent studies in this research, it is possible to mention the work of A.N. Sukharev who viewed state financial reserved as potential of modernization development of Russia’s economy. He developed methodological machinery of state reserves as a foundation of formation of state financial reserves, which led to introduction of the system of such notions as “state financial reserves”, “state financial savings (financial reserves) of the budget system”, “state financial savings (reserves) of the federal budget”, “state financial savings (reserves) of state non-budget funds”, “subfederal state financial savings (reserves)”, and “non-budget state financial savings (reserves)”. (State financial reserves, 2015).

4. Conclusion

Thus, it is possible to conclude that the history of evolution of economic category of “state financial reserves” is rooted in Ancient Rome, and today this notion hasn’t lost its topicality. This proves high efficiency and universality of instrumentarium of state financial reserves and their applicability to various types of economic systems (Popkova et al., 2015b).

For effective use of state financial reserves, it is necessary to evaluate long-term perspectives of influence of this tool on economic system and coordinate the directions of use of state financial reserves with priorities of state policy. Theoretical nature of the conducted analysis of the history of evolution of economic category “state financial reserves” determines limitation of results of this article.

As perspective directions of further studies in this sphere, it is possible to offer the development of recommendations for perfection of the system of forecasting crisis phenomena in the global economy, which will be the basis for increase of effectiveness of the use of instrumentarium of state financial reserves.
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