Personal savings: controversial role in extended reproduction

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Abstract. The authors of the article mainly focus their attention on assessing the current role of investments and first of all personal savings in development of the economy. Nowadays the major problem is speculative use of investment resources in the economy which is mediated by the system specificity of modern financial markets characterized by market liberalization and deregulation. It is underlined that stock market tools are foremost aimed at making a price profit rather than profit from actual production which has a direct impact on saving preferences of population.

Keywords: investment, financial markets, accumulation funds, personal savings, stock market tools

Introduction

Difficulties in modern economic development are reflected in the discussion of the current role of investments in extended reproduction. The special sharpness of this topic has been determined by the discussion of prerequisites and consequences of the global financial crisis as well as previous and subsequent actions of financial regulators in economically developed countries. Two extreme viewpoints here are determined by judgments that, on the one hand, extended reproduction is impossible without investments and, on the other hand, most modern investments are of speculative nature and help only the wealthiest strata of population to get rich [1-3]. Let us consider these aspects in more detail.

Any production is a process of transforming the resources into an economic product. Natural, physical, human and financial resources involved in the production process undergo various transformations and become an economic product presented in the form of products (goods, works performed and services). As a rule, transformation of resources into products occurs within a specified period of time. This period determined the manufacturer’s need in funds for initial acquisition of resources. These funds are required before the resources transformed into goods are sold and compensate for the costs incurred for initial acquisition of resources [4-6].

The process of transformation of different resources into products within various productions takes different time. For example, transformation of durable means of production such as buildings, constructions, machinery, equipment etc. takes much time. Duration here is conditioned by the initial cost and specificity of its transfer to the end product. Transformation of raw materials and supplies which are in stock for some time and are not involved in the industrial process for product development takes less time. Transformation of working productive capital such as raw products, materials and energy takes the least time. As a rule, working capital almost immediately is involved in the industrial process and completely transmits its value to the end product. However, despite these differences almost in all the cases initial investment is required which actually is the investment itself [7, 8].

Main part

Investments are required for proper operation of the existing production. At that, as a rule, working capital requires investment. But investment is even more required for establishment of new industries and renewal of the existing ones when it comes to investment in durable means of production which in the aggregate determines the role of investment in reproduction especially in the extended one. Thus, investment allows to acquire resources and involve them in production of the economic product. Due to this investment allows to establish new industries and to renew the existing ones. Establishment of new industries and renewal of the existing ones is a guarantee of extended reproduction. The result of extended reproduction is increasing the volume and improvement of quality of the economic product to be distributed, exchanged and subsequently used. Increasing the volume and improvement of quality of the economic product to be consumed result in improving the quality of life of population – socio-economic development of the society. Therefore, investment as a means for acquiring resources for their subsequent involving in production is one of the key elements determining the process of socio-economic development of the society.

Meanwhile, the above statement does not reflect informative aspect of the "investment"
category in full which raises controversy regarding the role of investment in socio-economic processes. The main source of the problem here is a large number of approaches revealing the notion of investment differently. For example, the most prominent domestic scientists in this field such as Blank I.A., Bocharov V.V., Valdaisev S.V., Kovalev V.V., Korchagin Y.A., Malichenko I.P., Popov V.M., Starik D.E. etc. give their own definitions of investment. Such definitions can also be found in the works of eminent foreign scientists such as Birman G., Bryu S.L., Makkonel K.R., Norkott D., Rozenberg J.M., Sharp U.F., Shmidt S. etc.

Veretennikova O.B. and Rybina E.S. have analyzed the approaches to revealing the notion of investment in the works of the above scientists. As a result the researchers have concluded that investment should be understood as "capital investment (real investment) made by the public authority, any legal or natural person that is both resident and non-resident of the country, as well as any investment in acquiring the securities (financial investment) made to achieve strategic goals expressed in obtaining economic benefit through increasing the capital stock or to achieve any other goals with obligatory prediction of the level of risk and income" [9, 10].

![Figure 1. Amount of investment in non-financial assets and financial investment made by organizations in 2012, tln. rub](http://www.lifesciencesite.com)

Based on this definition we can note that according to the investment object the general notion of "investment" can be divided into two elements of different nature: real and financial investment. Figure 1 presents a diagram reflecting information about the amounts of real and financial investment made by domestic organizations in 2012. The diagram shows that the amount of financial investment greatly exceeds the amount of real investment. Of that, the real investment object includes natural, physical and human resources directly transformed within industrial processes into the economic product. Different financial resources, as a rule, subject to subsequent transformation into real investment in their turn serve as a financial investment object. However, financial investment can be used not only for production but also for speculation aimed at obtaining the short-term profit. This aspect raises a lot of controversy in the scientific community.

Thus, financial investment is an intermediate form of transformation of savings into real investment in the market economy. The example of such financial investment can be shares and corporate bonds (debt and equity securities). However, these securities can also be used for financial speculation – sale purchase transactions aimed at gaining profit from price change rather than selling the economic product [11, 12].

According to classical concepts of a free market the price of goods is determined by its supply and demand. Thus, the price is determined by the supply and demand equilibrium – when with a given price the amount of goods put up for sale coincides with the amount of goods purchased. The demand and supply are formed based on real customer needs and manufacturers’ capabilities. At that, price change occurs in case of change of conditions determining both the demand (customer needs change) and supply (manufacturers’ capabilities change).

However, classical concepts of the market do not cohere with contemporary reality. According to some researchers of this problem today in conditions of market price movement the free capital used not for real but speculative investment plays the decisive role [13, 14]. Thus, in a number of cases the speculative capital in aggregate can exceed the amount of capital of agents involved in the process of real exchange of assets. However, unlike the agents involved in the process of real exchange of assets and relying on the objective interest supported by fundamental factors, speculators rely only on the interest associated with the possibility to gain profit from price movement. Therefore the interest of the considerable volume of capital in the market is focused only on the increase of price changes rather than real exchange of assets. As a result the fundamental factors determining demand and supply for the goods are ignored which facilitates significant removal of the price from fundamental equilibrium level. In aggregate this makes real agents adapt to the new supply-demand ratio while financial speculators do not need any real goods.

Such processes have resulted in a significant change of bases changing the demand and supply in modern markets of resources transformed within industrial processes into the economic product. As a result the demand and supply no longer depend directly on real needs but are mainly determined by speculative price expectation which causes disbalance of reproduction processes and involves negative consequences for socio-economic development of the society.
One of the most recent and shining examples is the US mortgage crisis of 2007 which subsequently turned into the global financial crisis negative effects of which can be sharply felt today. The main reason of the mortgage crisis identified by the experts is a fast growth of the sector of speculative investment in the area of residential property. Thus, in 2006 about 40% of residential property sold in the US had a speculative purpose. This process encouraged the growth in demand, prices and supply focused on the established price levels. However, after 2006 the decrease in the interest of speculators was marked in the US residential sector. This resulted in sharp contraction of demand which caused overproduction and sharp reduction of real estate prices [15]. This in its turn resulted in disbalance of reproduction processes in the area of reproduction process and subsequently problems in related areas, especially in the area of finance.

Meanwhile, it is necessary to note that the problem of speculative use of investment resources in the economy is rather extensive and is mediated by the system specificity of modern financial markets as well as their excessive liberalization and deregulation. This problem becomes especially sharp in increase in total accumulation funds among population. Thus, figure 2 presents the graph showing the increments of financial assets among population from 2000 to 2012.

There are two main forms of accumulation of household accumulation funds in the scientific practice: unorganized (unrelated) – “treasure”; organized (related) – “capital”. At that, unorganized forms of accumulation of savings contribute to slower extended reproduction as the accumulated product is transformed into different values dropping out of the economic circulation. Unlike unorganized forms the organized forms of savings are subsequently involved in economic processes and through financial investment they facilitate extended reproduction.

In this context, quantitative indicators of development of saving processes are slightly behind national economy growth indicators. This is reflected in reduction of the indicator of gross savings. Thus, if in 2000 savings made more than one third of GDP (36.2%), by the end of the period under review the share of savings in GDP had declined to 28.3%, the minimum was marked in 2009 – 21.1%.

Meanwhile, in addition to quantitative slowing down of the saving process its specific quantitative nature should be noted. Thus, figure 3 presents a diagram reflecting the structure of money savings of population as at the beginning of 2013.

In general, this structure of accumulation funds of population indicates maintaining of a large part of saving in unorganized forms – part of money stock opposing to money stock in active turnover [16]. Besides, savings kept in organized forms are mostly formed directly through bank deposits. This also distinguishes the domestic saving process from its foreign analogues where most savings are organized through modern financial instruments [17].

The specificity presented is mostly due to low level of public confidence in modern financial institutions [17]. Thus, figure 4 presents a diagram reflecting the structure of respondents' answers to the question concerning the preferred forms of keeping personal savings. The diagram shows that only 1% of respondents have noted that they make contributions to non-state pension funds and/or participate in
endowment insurance plans. At the same time almost none of the respondents have noted that they invest in securities such as shares, bonds, shares of mutual funds, participation certificates of bank-managed mutual funds. At that, most respondents have noted that they use bank services to organize their savings or make their savings in cash.

Figure 4. Structure of respondents’ answers to the question concerning the preferred forms of keeping savings obtained as a part of the study of the National Agency for Financial Studies conducted in 2012

Conclusion

Thus, it became apparent that the modern saving process in the national economy is characterized by a number of negative points. First, the process of formation of accumulation funds is slowed down which indicates reduction in the gross savings rate. Second, personal savings which make a considerable part of all the savings in the economy are mostly presented in the unorganized form which is not involved in reproduction processes. The other part of personal savings is organized through classical tools of the banking sector. At that the role of modern financial instruments in this process remains insignificant. In the aggregate this results in low efficiency of processes of transformation of accumulation funds into investment resources of socio-economic modernization.

Resume

The use of such financial instruments as bank deposits, shares and bonds and their indirect forms represented in the form of collective investment funds and trust funds are among the most available methods to organize savings and their subsequent transformation into investment resources for population. However, bank deposits have significant institutional restrictions for both investors and those who need investment. In this respect, stock market tools are more liberal in nature. However, the problem of using these accumulation funds as speculative investment arises here. Even considering the fact that as an objective of most tools the midterm and long-term investments are declared most of which are aimed at making a price profit rather than profit from actual production is unacceptable to support extended reproduction and to ensure socio-economic development. In general, this actualizes the problem of searching new forms to organize accumulation funds and their real involvement in the reproduction process.

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