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Self-Financing in Market Developed Countries: Formation and Development

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Abstract

The article deals with the main elements of a market economy, such as self-sufficiency and self-financing. It is noted that the highest level and dynamics of self-financing are achieved in the conditions of innovative development of corporations or enterprises. In addition, through an excursion into the history of the formation and development of self-financing, a number of proposals are made on the need to maintain this phenomenon in the context of the transition to a market within countries with economies in transition. This makes it possible to increase the stability of the functioning of the economic mechanism of enterprises and increase its accumulation and raise the level of self-financing.

Keywords*: self-sufficiency, self-financing, mechanism, private property, principles of self-financing, types of enterprises, securities, resources, capital.*

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Introduction

One of the main elements of a market economy is the transition of enterprises to the principles of self-sufficiency and self-financing. Three centers - the USA, Western Europe and Japan - have accumulated vast experience in organizing self-financing of enterprises and corporations. In market conditions, this is not a frozen, but a dynamic process that develops under the influence of the cyclical nature of reproduction, various market fluctuations, the international division of labor, and scientific and technological progress. Self-financing reaches the highest level and dynamics in the conditions of innovative development of the economy.

The general classical, established form of self-financing is the enterprise's own savings in the form of retained earnings and depreciation, which are supplemented by a rational share of the issue of securities and loans received from the loan capital market. It did not take shape immediately, but gradually, along with the main stages in the development of market relations.

Main part

Self-financing develops with the attraction of a loan and with a certain participation of the state, which encourages this policy. In market conditions, it expands its scope through the capitalization of added value and through the issuance of securities. At the same time, financial assistance from the state is episodic in nature and is due to extraordinary circumstances. In developed countries, self-financing can be characterized by the highest level with deeper and wider state intervention in the economy.

Theoretical basis of self-financing in a market economy. The financial and economic crisis of 2008 showed that the current self-financing mechanism, adopted back in the period of free competition, and also based mainly on weak market demand and equity financing in the conditions of exchange speculation, cannot function effectively and needs to be radically reorganized. However, the private sector itself cannot solve this problem, since the contradictions of private property interests are too great. Therefore, a new economic mechanism is needed that can bring the economy out of the crisis and ease social contradictions. It must solve not only macroeconomic, but also microeconomic problems, i.e. to renew the economic mechanism of the enterprise itself.

Such a renewal mechanism was state-monopoly regulation, based mainly on the Keynesian doctrine and the subsequent concepts that grew out of it. This is evidenced by various areas of neo-Keynesian theories that became widespread in the leading market developed countries in the 50-60s of the last century, especially in the USA, England, Germany, and France.

The theories of Keynesian and neo-Keynesian regulation were mainly macroeconomic in nature, but they also had a direct impact on the microeconomic level through a set of such state tools as government orders and entrepreneurship, monetary regulation and fiscal impact on the economy [1]. Each of these elements influenced the economic mechanism of the enterprise and thus the system of self-financing.

Keynesian regulation of the economy made it possible to generally strengthen the economic mechanism and method of self-financing of private enterprises, but the increased rate of government regulation on stimulating public spending led to an increase in budget deficits and public debt. The latter sharply increased the costs of private enterprises for raw materials, materials and equipment, which significantly narrowed the scope of profit accumulation. In addition, inflation has created various disproportions in the economy.

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Therefore, in the late 1970s and early 1980s, in the developed market countries, almost everywhere, a partial departure from these methods of economic regulation began. Two concepts are being greatly developed: the theory of supply-side economics and the theory of monetarism, which are adopted by the ruling circles. The essence of the new concepts is reduced mainly to a large reduction in taxes and government spending, which should be combined with the manipulation of the money supply and interest rate policy in order to reduce inflation [2]. This allows, in the microeconomic aspect, to increase the stability of the functioning of the economic mechanism of a private enterprise, increase its cash savings and raise the level of self-financing.

In connection with the strengthening of the trend towards self-financing of corporations within the framework of neo-Keynesianism, special theories of accumulation arose (back in the 50-60s), expressing an assessment of self-financing in the reproduction process, and which became most widespread among American economists. These theories reflected, in essence, two opposing views on self-financing. Such prominent American economists as A. Burley and R. Minz, for example, sought to prove the independence of commercial and industrial corporations from credit and financial institutions and the loan capital market in connection with the growth of self-financing. Moreover, the evidence was cited mainly on artificially selected statistical data on the process of financing corporations [3]. In their views, in essence, the idea was carried out of stopping the merging of industrial and banking capital in such an important direction as long-term financial ties.

Another, more numerous group of American economists (S. Kuznets, D. Creamer, S. Dobrovolsky, I. Borenstein, A. Koch, P. Boren, P. Sweezy, D. Galbraith, W. Goldsmith and a number of others) [4- 7] showed that self-financing does not mean complete independence from financial institutions and the capital market. Moreover, based on a deep statistical analysis of self-financing trends in the 1950s and 1960s, they showed that the dependence of corporations on the capital market did not decrease, but, on the contrary, increased.

The further development of the economy further strengthened and expanded the provision on credit, its role in the processes of centralization, represented by the banking system, a supplier of external sources of financing for private and state enterprises. This is confirmed by the whole practice of the process of accumulation of capital.

The concept and basic principles of self-financing. The term “self-financing” is separated from the term reflecting the concept of financing industry and enterprise, which is widely developed in the analysis and characterization of the financing of the entire reproduction process, both at the macroeconomic and microeconomic levels. Back in the 50-60s of the twentieth century, the emergence of a new term reflected the path of a new process, expressing, expressed in an increase in the share of internal sources (profit and depreciation) in the financing of enterprises and a decrease in the issue of securities and bank lending. Financing from 60 to 90% of capital investments, renewal of fixed capital, total current costs from domestic sources of accumulation was considered a high level of self-financing in industrialized countries.

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