

## METHODOLOGICAL APPROACHES USED TO DEFINE PUBLIC FINANCES

The paper reveals the essence and functions of public finances as part of public economy sector. The author investigates the place of public finance in a financial system. The public finance is considered as full and rightful part of private business.

**Key words:** *public finance, financial system, functions of finance, public sector of economy.*

**В.Н. Козельский**

## МЕТОДОЛОГИЧЕСКИЕ ПОДХОДЫ К СОДЕРЖАНИЮ ОБЩЕСТВЕННЫХ ФИНАНСОВ

В статье раскрываются сущность и функции общественных финансов как части общественного сектора экономики. Исследуется роль общественных финансов в финансовой системе. Общественные финансы рассматриваются как полноправный участник частного бизнеса.

**Ключевые слова:** *общественные финансы, финансовая система, функции финансов, общественный сектор экономики.*

Efficiency of state functioning, its financial stability and financial solvency largely depends on management of public finances.

The term "public finances" which is well known worldwide is not widely used in Russia. There are only concepts of "government finances" and "municipal finances". Despite public finances significance, their theoretical basis is not well determined. Firstly it shows itself in understanding the role of the government in market economy. Today the government is beyond the scope market operations and this fact generates the wrong ideas on extra economic principles of public finances thus forcing them to be on the brink of coping with market economy laws. The result of it is making unmotivated managerial decisions.

For better understanding public finances principles and functions it is necessary to define finances in general which is rather a disputable aspect. Uncertainty in the aspect of finances principle in theory is the reason for misrepresentation of processes in the government financial policy in practice.

Generalizing conceptual approaches of national economists to principles and structure of finances it is possible to divide them into several categories. The first category is economists who are supporters of distribution theory (L.A. Drobozina, E.A. Voznesensky, V.M. Rodionova, V.G. Chantladze, etc. [1]). The second category of economists is followers of reprocessing theory (D.S. Molyakov, P.S. Nikolsky, M.V. Romanovsky, V.K. Senchagov, etc. [2]). There are also economists who relate the theory of finances only to the activity of the government (A.M. Alexandrov, A.M. Birman, B.M. Sabanti, A.Yu. Kazak) and there are economists who admit not only government finances but corporate finances as well (the major part of Soviet and Russian economists) [3].

In western literature and practice finances are considered to be public (government) finances [4]. This standpoint implies that the government needs the formation of institutes for carrying out federal policy, i.e., together with origin of State objective necessity to create a system of redistributive relations formation appears in society. These

redistributive relations become associated with money (finances) when commodity-money relations develop.

Theoretically substantiated position of principles of finances understanding belongs to A.G. Gryaznova and E.V. Markina. They believe that finances are "an aggregate of money relations in terms of distribution of gross domestic product cost, foreign economic activities revenues, and a part of national wealth. All this contribute to money income, receipts and savings accumulation. They are accumulated at the level of business entities and government, and are later used for solving economic and social tasks" [5, p. 13].

A new and interesting trend of investigation was suggested by S.V. Barulin and T.M. Kovaleva. They consider that finances mediate all money relations in the process of giving effect to civil and public financial resources as well as formation and use of business entities and government (municipal) revenues which arise due to financial instruments and mechanisms [6]. Thus, they repudiate such a distinctive feature of finances like their fund character and mandatory form of money relations. We share this opinion and we also consider the principle of finances in global conditions from the point of view of two methodological positions: scientific and practical. Being economic categories, finance and money are different in the form of their existence and are related as form and content (e.g., price and cost). But both financial and money relations are put into practice in the form of financial resources movement.

Modern money functions successfully only because it is in the form of finance. Financial mechanisms and instruments give effect to money. Then they convert it into financial resources thus making the process of formation and use of government as well as municipal, corporate and home economics revenues constant.

Conceptual framework of national economical thought does not have the concept "public finances". Analysis of definitions of concepts "government and municipal finances" made it possible to find out the two main approaches. A number of authors (G.B. Polyak, A.M. Babich, L.N. Pavlova, etc.) consider the principle of government and municipal finances in terms of economic relations. Other econo-

mists (A.G. Gryaznova, E.V. Markina, M.V. Romanovsky, L.S. Grinkevich, V.V. Kazakov, etc.) consider them in terms of money relations. At that a number of authors believe that these relations appear with regard to formation, distribution and usage of centralized money funds, while others are sure these relations appear with regard to distribution and redistribution of social product cost emphasizing the condition for government and municipal finances formation.

The study of economic literature made it possible to conclude that as a rule national authors most often use the terms "government finances" and "municipal finances". The term "public finances" is used mostly in foreign theory and practice. Over the last years in Russia public finances are often spoken about. Statutes and regulations specifying implementation of budget and administrative reforms have contributed to that.

As reforms of public finance management are a priority task in the field of institutional changes in the Russian Federation, the precise conceptual framework is of vital importance for identification the object of the reform.

It should be noted that the theory of public finances is a constituent of economy of the public sector. Public finances are given a multivalued treatment. Using the experience of institutional reform in Russia and the experience of western countries in carrying out administrative and budgeting reforms, it is our understanding that it is relevant to apply the term "public finances" in theory and practice of finance. We consider that this term implies combination of money relations which appear in the process of distribution and redistribution of social product cost while forming and moving of centralized funds of financial resources necessary for federal and local governments to perform their functions aimed the improvement of the country residents' quality of life.

Public finances management is based on the following methodological basis:

- general principles (unity, goal, efficacy, temporality, balance, diversification);
- specific principles (transparency, scientific character, complexity, validity, cost effectiveness, rationality, differentiation of powers and competences, adequate management of financial (budget) flows.

In financial globalization public finances are considered to be the main segment of financing because they mainly define rules of the game and influence finances of economic entities directly or indirectly. Emerging role of the government in the sphere of finances concerns not only cross-countries financial flows but financial activity inwardly. Some countries have a tendency to strengthen their financial influence in the world while others tend to protect themselves from this influence. This leads to understanding the necessity for more active influence of the government on domestic financial processes. In this case the government actively utilizes finances for stimulation of economic growth, enhancement of economic structure, and increase in living standards of population. Today public finances should not only perform the function of government provision but should also be an effective and productive element of the reproduction process by actively taking part in accumulation of fixed assets for public goods production in different forms (population protection, defense, finance stabilization, etc.), of innovation potential of the country, of intellectual resources, etc.

Economic content of public finances means the movement of financial resources in civil form. On this basis formation and utilization of government and municipal bodies' revenues occurs. This can be done when respective financial mechanisms and instruments are applied. In this case financial instruments and mechanisms are tax and non-tax payments, federal (municipal) loans, means of financial support to regional and municipal governments, government businesses and programs, public budget loans, inter-budget transfers, etc.

Public finances are a system of redistributive money relation regulated by the government pertaining to formation and utilization of centralized (public) money funds (revenues) necessary for the government to perform its functions.

Scientists do not have a shared vision of the spheres and parts of financial system. But most economists and lawyers agree that financial system incorporates finance of the government and finance of companies of different patterns of ownership (the exception is the Ural scientific school under the supervision of A.Yu. Kazak, the representatives of which consider finances to be public thus repudiating the idea of finance of non-government organizations considering them as money relations but not as a financial category) [7, c. 122].

We believe that financial system consists of objectively conditional spheres – public and corporate finances. Public finances are a part of financial relations with direct participation of government authorities of any level (government and local government authorities). These authorities generate financial resources necessary to perform their functions – economic, social, political, financing constitutional civil rights, etc.

The following constituents present public finances: budgetary system, financial provisions, government and municipal enterprises and organizations.

It is also necessary to determine the functions of finances. It is possible to distinguish two main approaches to this aspect among the variety of different approaches of national economists. The supporters of the first approach believe finances have the function of distribution and control [8]. The followers of the second approach think finances perform three functions: fund formation of monetary assets (receipts), use of funds of monetary assets (expenses) and function of control [9]. There are also other approaches to determination of finance functions. For example, L.N. Pavlova states that finances have the functions of planning, organizing, stimulating and control. It is evident they are the functions of any economic process management, though [10, p. 17 – 18].

A.I. Arhipov and V.K. Senchagov have an understanding that the term "function" implies certain "work" that finances do and are sure finances have distributive, stimulating and control functions [11, p. 28]. However, the concepts of "function" and "work" should not be misinterpreted. The term "work" implies a certain activity of people and the term "function" implies a socially intended use of an economic category.

According to S.V. Barulin and T.M. Kovaleva finances perform three functions: generation of centralized and decentralized income; use of centralized and decentralized income; and control [12]. Government finances being a part of general system of finances also perform three functions in the centralized sphere of financial resources flow

(money income and expenses of State). So their functions are to generate centralized income, utilize centralized income and control.

Musgrave R.A., et al. distinguish three functions of State: to allocate, to distribute and to stabilize [13]. L.N. Yakobson considers these functions are applicable to government finances as well [14].

Allocation function means adjustment of economical resources allocation in case economy is not efficient enough due to market imperfections. Allocation function is related to generation of public goods. Public goods are goods not provided by private markets. Government finances perform allocation function connected with generation of unique vitally important public goods. They do not only flatten out all the disadvantages of market mechanism but solve key socially important geopolitical tasks. Allocation function is performed in the case State limits production of commodities which have negative external effects with taxes or in another case State accommodates generation of public goods which have special advantages with bailouts. By means of public finances resources allocation is performed for generation of the majority of public goods. Successful implementation of geopolitical strategy can be only in case State accurately performs its allocation function. Problems arise when State either does not provide the excellent quality of these specific goods generated by its institutions, overprices them, or loses monopoly on their generation. When it loses monopoly on generation of public goods, informal structures which are latent and are beyond the scope of control of society and government, take the place of State. It deregulates State and eliminates its geopolitical potential.

When State loses monopoly on performing allocation function there occur negative external effects, or externalities. This means that due to elimination of non-competition in consumption and non-excludability of clean public goods the principles of social justice and equality in consumption of public goods are violated. Alongside, oligopolistic tendencies increase: several small groups of citizens become "exclusive" consumers of these vitally important services. This kind of situation happened in Russia in the 1990s when State lost monopoly on legitimate constraint, taxation and law enforcement. As the result some competitive and being beyond the control of State the sources of constraint and instances of taxation appeared on the territory which was formally under State jurisdiction. This circumstance is essentially important for re-thinking financial policy and carrying out an effective financial strategy of development.

Distribution function of public finances is in implementation of redistribution processes (e.g., collecting taxes from the employed, State pays pensions and welfares to the unemployables and the unemployed).

In exercising each of these functions State changes orientation and scopes of financial flows caused and regulated by the market in either way. However, if the allocation function concerns mostly financial flows between branches of industry and organizations which generate and utilize profits, then the distribution function concerns individuals. Thus, funding of basic sciences for account of bank taxation can serve as an example of allocation function implementation and funding of exigencies of the disabled can serve as an example of distribution function of government finances implementation. Implementation of the given func-

tions is oriented to different in themselves criteria – efficiency and justice.

Stabilization function of public finances is determined by their impact on macroeconomic equilibrium which essentially depends on tax format and rate, public spending, government debt and the means of its funding.

At that stabilization measures inevitably cause changes in allocation and redistribution. Differentiation of functions is necessary, though, to clearly define and analyze specific targets which may be achieved on the basis of development of State, its finances and different options of its finances utilization.

In summary, taking into account the significance of State as a business entity and a generator of public goods, it is possible to state public finances have one more function – entrepreneurial.

It is fairly said that in modern conditions and in the future public finances should transform from redistributive category into real reproduction category [15, p. 97]. In practice it should mean there is a necessity for a nation-oriented program development. This program should concern transformation of public finances system on the basis of macro strategy of economy development in the new century. It should also provide both redistribution (re-orientation) of market mechanisms and instruments and creation of new market forces able to initiate a considerable economic lift. Key element of this program should be financial resources reallocation to spheres which enable to enhance efficacy of financial resources of the government. To do this, it is necessary to work out new approaches to public resources understanding. Public finances do not only perform the function of State providing but are also an effective element of the reproduction process actively taking part in accumulation of gross assets for public goods production as well as in enhancement of innovation potential of the country and in enrichment of its intellectual resources, etc.

Public finances should not be only the instrument of filling the gaps in economy but should gradually become an equal partner of private business being both its guarantor in modern business relations and a financial partner that has public interests in solving certain tasks of economic development.

1. Finance: textbook for higher educational establishments/ Edited by prof. L.A. Drobozina. M.: Finance, YuNITI, 1999. P. 8 – 22; Rodionova V.M., Vavilov Yu.Ya., Goncharenko L.I. et al. Finance/ Edited by V.M. Rodionova. M.: Finance and Statistics, 1993. P. 7 – 25; Chantaladze V.G. Aspects of Finance Theory. Tbilisi: Publishing House of Tbilisi University, 1979. P. 284; Finance of the USSR: textbook / Edited by H.G. Sycheva. M.: Finance, 1979. P. 7 – 8.

2. Allahverdyan D.A. Finance and Credit System of the USSR. M.: Science, 1982. P. 22-23; Nikolsky P.S. Finance in the System of Business Mechanism of Industry. M.: Finance and Statistics, 1982. P. 18; Financial Resources of National Economy / Edited by V.K. Senchagov. M.: Finance and Statistics, 1982. P. 12.

3. Alexandrov A.M. Finance in Socialist Reproduction Process. M., 1959; Birman A.M. Essays on Soviet Finance. Issue 1. M., 1968; Tochilnikov G.M. Aspects of Soviet Finance: Essays on Theory. M., 1962; Sabanti B.M. Theory of Finance: study guide. M., 1998; Aspects of Finance Theory / Edited by V.P. Dyachenko. M.: Publishing House "Gosfinizdat", 1957; Finance of Capitalism: textbook / Edited by B.G. Boldyrev. M., 1990; Molyakov D.S. Finance of Enterprises of National Economy Branches: study guide. M.: Finance and Statistics, 1999; Finance / Edited by V.M. Rodionova. M.: Finance and Statistics, 1995; Finance, Currency of Money

and Credit: textbook / Edited by M.V. Romanovsky, O.V. Vrublevskaya. M., 2001.

4. Finanzielle Entwicklung des Staates in der VGR, Deutsche Bundesbank. Vorläufige Zahlen, Stand. Februar 2003.

5. Finance: textbook / Edited by A.G. Gryaznova, E.V. Markina. M.: Finance and Statistics, 2004.

6. Barulin S.V., Kovaleva T.M. Principle of Finances: New Realia // Finance and Credit. 2004. № 5. P. 5-9; Kovaleva T.M., Barulin S.V. Budget and Budgetary Policy: study guide. M.: Publishing House "Knorus", 2005. P. 19 – 28.

7. Finance and Credit: textbook / Edited by A.Yu. Kazak. Ekaterinburg: Publishing House "PIPP", 1994.

8. This position is shared by V.M. Rodionova, L.A. Drobozina, D.S. Molyakov and other scientists of Moscow scientific school. However, L.A. Drobozina adds two more functions to the given ones. They are regulative and stabilizing (Finance: textbook for higher educational establishments / Edited by L.A. Drobozina. M.: Finance, YuNITI, 1999. P. 21).

9. The followers of this approach are E.A. Voznesensky, M.V. Romanovsky and other scientists of Leningrad scientific school. B.M. Sabanti and A.Yu. Kazak being the followers of this idea on the whole do not believe finances perform controlling function, though.

10. Pavlova L.N. Finances of Enterprises. M.: YuNITI, 1998.

11. Finance, Currency of Money and Credit / Edited by V.K. Senchagov, A.I. Arhipov. M.: Prospect, 2000.

12. Barulin S.V., Kovaleva T.M. Budget and Budgetary System. M.: Publishing House "Knorus", 2004.

13. Musgrave R., Musgrave P. Public Finance in Theory and Practice. McGraw-Hill, 1989.

14. Yakobson L.N. State Sector of Economy: Economic Theory and Policy: textbook for higher educational establishments. M.: Publishing House "GU VShE", 2000.

15. Formation of National Financial Strategy of Russia: the Way to Rise and Prosperity / Edited by V.K. Senchagov. M.: Publishing House "Delo", 2004.

УДК 336.5

A.Yu. Nikitin

## IMPROVEMENT OF FUNDING METHODS OF FINANCIAL SECURITY OF REGIONAL POLICY DEVELOPMENT

Research of aspects of funding methods of financial security of regional policy development is presented. The aims and tasks of the Investment Fund of the Russian Federation are investigated. Disadvantages of qualitative and quantitative criteria used for selection of investment projects claiming to get financial support from the government are discussed.

**Key words:** the Investment Fund of the Russian Federation, regional investment funds, selection of investment projects, criteria of efficiency.

A.Ю. Никитин

## СОВЕРШЕНСТВОВАНИЕ ФОНДОВЫХ МЕТОДОВ ФИНАНСОВОГО ОБЕСПЕЧЕНИЯ ПОЛИТИКИ РЕГИОНАЛЬНОГО РАЗВИТИЯ

Статья посвящена исследованию проблем совершенствования фондовых методов финансового обеспечения политики регионального развития. Исследуются задачи и функции Инвестиционного фонда РФ. Анализируются недостатки качественных и количественных критериев отбора инвестиционных проектов, претендующих на получение государственной финансовой поддержки.

**Ключевые слова:** Инвестиционный фонд РФ, региональные инвестиционные фонды, отбор инвестиционных проектов, критерии эффективности.

Assignment of resources of the Investment Fund of the Russian Federation to financially support innovation projects has become one of the most significant decisions of the government of the Russian Federation in the process of innovation economy development. The Government of the Russian Federation adopted the Regulation dated March 1, 2008 № 134 "On Approval of the Regulations on the Formation and Utilization of the Budgetary Provisions of the Investment Fund of the Russian Federation". Since the date of the Regulation approval budgetary provisions of the Investment Fund are intended not only for the projects aimed at socio-economic development of the Russian Federation and its regions (infrastructure development) but for innovation projects implementation as well.

In accordance with Budgetary Code of the Russian Federation (Article 179.2) the Investment Fund of the Russian Federation is finances set aside in the federal budget of the Russian Federation intended for financing investment

projects implementation. The Fund is replenished by increase in oil cut-off price in the Stabilization Fund formation (since February 2008 the Reserve Fund and National Welfare Fund) and by advanced repayment of foreign debt, i.e., out of savings interest. Ministry for Regional Development performs the function of providing the government support from the Investment Fund. The Investment Fund is intended for investment and concession projects of federal, regional and interregional importance co-financing carried out on terms of private-public financing partnership [1].

The Investment Fund of the Russian Federation was formed as a part of the federal budget in 2006 with the amount of 69.7 bln. Rub. In 2007 the Investment Fund spent 28 bln. Rub.; in 2008 – 28 bln. Rub.; in 2009 г. – 87 bln. Rub., particularly 77 bln. Rub. – on federal projects and 10 bln. Rub. – on regional projects. In 2010 it was planned to replenish the Investment Fund by 37 bln. Rub. and to finance only the projects which had already been under