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JEL Codes: A2, G23, G24, G28, N2

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The Formation of Financial Industries in USA, France and Russia¹

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Abstract

Despite the multiplicity of research on the surge of the financial industry the world over, little is done to understand the national context shaping the objectives and designs of this economic sector. The overall image that emerges from the literature is that globalisation and liberalisation of economies make the expansion of this sector indispensable for further development. This paper stresses the heterogeneity of the socio-psychological origins of the need for saving and contribution management, as well as the heterogeneity of the sources of savings and loan funding. In particular this paper discusses the following national characteristics: 1) the social belief in trust that smoothes the progress of insurance and pension fund business in the USA, 2) the traditional preference for saving and lending in France that explains the advance of banks and credit institutions for analysis of financial risks, and 3) the natural resources ground rent of Russian State provides the formation of sovereign-wealth funds, which require an up to date knowledge based investment management. This paper serves as a road sign indicating that the path of uniform financial industry formation is a waste of time and may bring about social and economic troubles.

Keywords: History of Finance Theories, Pension Funds, Insurance and Private Financial Institutions, Sovereign wealth funds, Financial Industry: USA, France, Russia.

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Some finance and insurance theories singled out

Nowadays the financial industry (sector or services) is composed of the banking industry, managing time deposits, making loans, investing in securities, and other financial services, such as: foreign exchange, debt services, derivatives and equities management. Insurance and investment management are usually included also in this industry. All previously quoted economic activities have historically formed a specific financial services workforce.

Finance and insurance are concerned with the transfers of risks between dates (credit and savings) and/ or situations (derivative assets, insurance contracts); with the mobilization of savings, with the resources allocation; and with fulfilling the functions of corporate control. The first insurance products were essentially of three types: they concerned the financing of expeditions, the usury by means of the so-called tontine², and the trust as the first system of spousal benefit coverage. Both finance and insurance were based on risk sharing among individuals, who are investors in the first example, members of the tontine in the second one, members of a family in the third. Clearly, the modern equivalent of expeditors financing is a hedge fund specialized in capital-risk; the second one is closer to a mutual fund, whereas the third corresponds to a pension fund. Currently, hedge and mutual funds are considered as financial instruments, whereas the financial or insurance status of a pension fund is not clear.

A brief history of finance theories in Western Europe

Until the beginning of the 20th century, financial science in Europe had to do with state property. It developed the best rules for state property accumulation, administration and utilisation, and is known as "classical" financial theory.

² Tontine is an investment scheme named after Italian banker Lorenzo de Tonti who introduced it in France in 1653. The concept is the following: Each participant pays a sum into a tontine. The funds are invested and each participant receives dividends. At the death of a participant, his share is divided among the surviving ones. The last surviving participant receives the dividends and the capital reverts to the state and is used to fund public works projects. Tontines were prohibited in Britain and the USA because of the incentive for subscribers to kill each other. Switzerland made an active use of tontines in the 17th and 18th centuries. Tontines were the first types of government bonds.

The birth of this financial line of thought is connected with Italian thinkers Giovanni Botero (1544-1617) and Nicolas Machiavelli (1469-1527). French scientist J.Bodin (1530-1596) introduced the notion of sovereignty and depicted seven principal sources of state income: domains, friends' gifts, military spoils, ally's tributes, trade, subject's taxes and export-import customs. Thomas Hobbes (1588-1679), English philosopher, popularized the idea of indirect taxation. With Physiocrats, French economists of the 18th century, A.R.J. Turgot (1727-1781) and François Quesnay (1694-1774), begin the rationalist period of financial thought. Turgot introduced the notions of opportunity cost and risk involved in invested capital in something other than land ownership, and he promoted interest as serving, using today's vocabulary, a strategic function in the economy. Scottish economist John Law (1671- 1729), acting principally in France, believed that money was only a means of exchange that did not constitute wealth in itself. He is said to be the father of finance, responsible for the adoption and use of paper money or bills. J.Law was an expert in statistics and was the originator of the economic notions: “the scarcity theory of value” (criticised by A.Smith and K.Marx) and “real bills doctrine”. “Real bills doctrine” of money applied the "reflux principle" to the money supply. It identifies money as credit, and credit is determined by the "needs of trade".

The originators of systematized financial science were J. Sonnenfels (1733-1817) and J.H.G. Justi (1717-1771) – German specialists of the so-called Kameral sciences. Their main purpose was toward developing methods of extracting revenue for state public coffers (exchequer).

French mathematician Louis Bachelier in 1900 analysed the evolution of shares prices on the stock exchange using a stochastic model and concluded that the forecast of their dynamic will never become an exact science, because, as he wrote, “the market unknowingly obeys a law that dominates it: the law of probability”. This is considered a pioneer work in the domain of modern financial theory.

Two analytical financial specialisations were developed by Russian scholars at the end of the 19th century: balance analysis and financial calculation. In 1891 A. N. Glagolev published a

book, "Elementary Theory of Long-Term Financial Transactions", in which he gives formulas to measure the profitability of interest securities and similar financial calculations, and answers the question of how to plan the repayment of long-term loans of various types.

The developing insurance doctrine is associated in Europe with "Political Arithmetic" by William Petty (approximately 1676), containing sections on the value of advanced payments. Nikolai Lunsky, Russian financier and accountant of the early 20th century greatly enriched and systematized "political arithmetic", and called this discipline "higher financial calculations".³

At the same period American economist Irving Fisher gave a rough idea of the function of credit policy in terms of resource allocation over time in economic development. Creators of theories of money, J.M. Keynes, J. Hicks, N. Kaldor and J. Marschak, considered portfolio selection problems, which involve the investigation of risks.

The intrusion of the American financial science

In the middle of the 20th century begins a principally new stage of financial science, since logical interpretation and substance change radically. American scientists open this so-called neo-classical era of financial theory, based on four theses: 1) The economic power of a state depends on economic prosperity of its private sector, the core of which is composed by big corporations; 2) The state should minimise its intervention in private sector activity; 3) Profits and capital markets are the main sources for financial development of corporations (joint-stock companies); 4) Internalisation of markets results from integration trends in the financial policy of states. This financial theory rests on proposals such as, among others: the utility theory⁴, the arbitrage pricing theory (S.Ross), the theory of capital structure (F. Modigliani, M. Miller), the portfolio theory (H. Markowitz), the capital asset-pricing model (J.Williams), and the option-pricing theory (R.Merton, M. Scholes, F.Black).

³ Accordingly to N.Lunsky: "Higher financial calculations (computing) are applied mathematics that studies the financial, statistic and political economy problems accessible for the mathematical analysis".

⁴ The expected utility model was already proposed by D.Bernoulli in 1738 as a solution to the Saint Petersburg paradox.

Russian social psychology and the French conventional school

Classical financial theory is characterised not only by the choice of state property as a subject of analysis, but also by a key idea that money becomes capital when it starts to take part in the creation of present and future values of economic fundamentals⁵ (the new profits and value-added, in Marx's terminology). This objectivity (necessary materialisation) of the future is largely accepted in economic science and even in the neo-classical theory of finance. Economists can disagree on the informational efficiency of finance to come up to the objective economic future; they retain usually the postulate of objectivity as necessary for the estimation without ambiguity of the value of fundamentals and for the elaboration of economic policy. According to André Orléan (2005), such quasi automatic acknowledgement of a set of proposals that support the acceptance of the objectivity hypothesis can be explained by generalized fascination and by lengthy learning of the modelling tools, largely developed in the 20th century. A.Orléan's thesis continues the tradition of Maurice Halbwachs (1925) in emphasising the social construction of time. He says that the future escaping from our knowledge is not a natural phenomenon, but a result of the process of collective “shared beliefs”. If so, it is important to have the capability to learn objectively the future, but not to suppose that it exists objectively. He calls this way of thinking “conventionalist”. The financial convention is easily determined as a shared manner to interpret the economic future. People accept financial conventions, such as: wage, pension and interest rate specifications, just because every person is expecting the occurrence, the outcome of which will confirm his or her expectations.

This conventionalist approach recognises implicitly the force of social and historical analysis of collective consciousness, initiated in the beginning of the 1930's by the Russian psychologist Lev Vygotsky. Indeed, Vygotsky established that knowledge is made up of artefacts and elements of culture. As a means of production, cultural artefacts are created by humans and are

⁵ Fundamentals are called also “intrinsic value” that is a theoretical calculation reflecting the fair value by taking into account hypotheses of future returns and risks.

objective. They transform the person and his psychology. All factors of an environment are decisive in a socio-historical development of consciousness. There are new ways of behaviour, new methods of information acquisition, new systems of understanding reality, and new motives for actions according to complex models of social practice. Formation of complex forms of comprehending reality and activities is accompanied by radical changes in brain processes, which influence forms of comprehension on an emotional level and appear to be the sources of human activity. Vygotsky (1925) has named this phenomenon “the semantic and system structure of consciousness”. The created social information is coded in meaningful cultural systems and is transferred through the function of various specific signs and institutions. Language, systems of measures, information technologies and communications, mathematical models, among others, represent signs. Due to the signs, psychological functions develop their two important features: strong-willed character and integrity of consciousness. Vygotsky’s ideas are important because they qualify human knowledge as a product of social history and represent means of expansion of social consciousness, called by A. Orléan “shared beliefs”.

In financial science it became more frequent to consider ways of thinking and explain the reasons of convergence of beliefs. For example, Marie Brière (2005) analysing the public bonds market, deduces that bonds’ prices reflect the shared beliefs diffused by such strong-minded decision making agents as the Central Bank or popular financial analysts. She suggests considering financial markets as a public space of opinions and contacts where ideas and conjectures circulate. The convergence process consists of the creation of the intrinsic force of competing ideas and their diffusion⁶. The existence of convention, as it is established or interpreted, is compatible with different individual estimations. As long as a convention is accepted, the agent refers to what the convention foresees.

⁶ See also the paper by Gourieroux – Peaucelle (1996) on the diffusion of innovations in finance

Insurance vs. finance

We posit that finance and insurance are concerned with the transfers of risks between dates and situations. Socio-historical psychology helps us appreciate the multiplicity of conventions explicating the reasons for insurance and finance convergence, despite the contradictions between their natural objectives, as well as the finance industry's development without an insurance component.

Sabine Montagne (2006) brightly explains how the trust - shared belief in insurance - emerges and how it transforms to create the financial industry. Trust is a core of the jurisdiction system called equity, created in the 14th century by the sovereign of England to contradict common law. The trustees were the persons that administered the property on behalf of some beneficiaries. Initially it was the property of warring lords (engaged in war), that was managed in profit to heir families under guardianship. More generally, trust is a conventional institution that manages an accumulated estate, funds for social needs on behalf of some category of population. Thus, the trust presents some characteristics that reduce the distance between the purpose of collective insurance conception (security right) and one of saving private (property right). Almost certainly, the management of risks between dates throughout the pension funds was the most important achievement of financial capitalism.

Efforts to manage efficiently pension funds have been widely studied also in Russian economic literature at the end of 19th century. It was expected at that time that the Russian Railways pension offices would have substantial capital and that they would face the task of acquiring securities that would yield the most significant revenue. To answer a set of questions posed by this situation, Polish mathematician Boleslav Maleshevsky (1889-1890) published in Russian a five volume work "Theory and Practice of Pension Savings". In this book the author presents a mathematical theory of evaluation of long-term financial transactions, his definition of mathematical statistics and the theory of insurance.

Pension funds are efficiently internalised in American economy because their function is embedded in the social and economic fundamental common belief in trust. Political ingenuity, in creating the pension fund, consisted in relocation of the convention of trust, helping to incite to save rather than to contribute. Social Security, created in the US in 1935, calls for contributions⁷, but it is the pension funds, built on the trust principle of saving, that enjoys legitimacy in American society.

Pension funds came to the fore at the end of the 19th century; they became specific practice between 1950 and 1970, when they were mainly defined benefit schemes arrangements. "Defined benefit schemes" signifies that the employer pledges to disburse the annuity at the contracting level as a function of wages and seniority. In the 1980s pension funds turned out to be powerful investors. The funds with "defined contribution schemes" replaced progressively the former ones (defined benefit). The employer contributes only in constituting individual capital for employees, and such pension fund guarantees that holdings will be managed in conformity with established professional rules, that prudent person rule will be respected, but it does not assure substantial performance.

Specific financial industry formation in various countries

In classical tradition Camerron, Crisp and Tilly (1967) analysed the historical interactions between finance and industrialisation in England (1750-1844), France (1800-1870), Russia (1860-1914), Japan (1868-1914) and Scotland (1750-1845). They highlighted the positive, growth inducing role of banking systems during these periods of accumulation. Neo-classical theoretical literature and numerous cross-country case studies, as well as both: industry and firm level empirical studies, conjure up the impact of country financial systems on agents' investment decisions, on savings rates and on general economic growth. For instance, Ross Levine (1997)

⁷ The pension systems, which call for contribution, are named usually "pays-as-you-go", and "retraite par repartition", in France.

analyses the finance-growth nexus and proves that cross-country institutional differences (legal and accounting) explain differences in the level of financial development and growth.

Our enquiry is other: we consider the reasons for financial industry formation and the speediness of its development in different social, psychological and historical circumstances.

From pension funds to a financial industry in the US

Pension funds as well as mandatory health insurance funds are buffers of accumulated indirect or deferred wages. During their expansion, pension funds stand out as gradually separated from the employer. At the first stage, one throws them out of the internal management system and relegates them to insurance companies. Later pension funds become a system with several actors: insurers, actuaries, government and trade unions. The peculiarities of the activity emerge and require new technical guidance. Competing actors respond to the new demand of employers. The actuaries are requested, for example, to measure the performance of investment, i.e. to assess risk. Thus, different types of financial intermediaries are contributing to this transformation of activity: firms of actuaries, committees of management professionals, and brokers. Already in the mid-1970s, the firm Becker in the US managed to control the performance of over three thousand funds. It is an industry that provides more than performance assessment; it elaborates benchmarks, standards of performance, which can be confronted from that time on.

Then, in presenting themselves as professional intermediaries, holders of technical knowledge, the actors of the pension industry, accredit the idea that the centralization and allocation of savings is determined technically. From there, investors can go on transferring financial assets, but their action is localized within a framework set by financial intermediaries. The power to attract savings and allocate them, that is to control the movement and enhancement of the capital, passed into the hands of decision makers in the financial sector.

French usury capitalism and flourishing financial industry

Often the French financial system is considered immature as compared with that of the UK, for example. Two types of arguments sustain this thesis; one of them can be regarded as classical criticism, the other as neo-classical.

Let's comment on the first. In the early 20th century a French author published, under the pseudonym Lysis (1908), a paper that gives the details of the French variant of capitalistic development. Vladimir Lenin (1917) made use of this reference and I do it in my turn. In France, capitalism began its development with petty usury capital and ended its development in the 19th century with gigantic usury capital. With stationary fundamentals: population stagnant industry, commerce and shipping, this country could grow rich by usury, showing that extensive periods exist when financial expansion affects the pattern of economic wealth without the development of a "real economy". The first state-chartered bank with the power to issue unbacked paper currency, the Banque Générale, was established in France in 1716. It was John Law who thought of creating this institution. His idea was to encourage the exchange of means of payment in order to avoid hoarding and revive trade. This note-issuing bank was a spectacular success. A contemporary author wrote that the "rue Quincampoix in Paris (where the bank was located) was filled with traders of all kinds, most of whom had abandoned their profession to become brokers ... Mechanics, clerks of financiers, practitioners, soldiers and lackeys transvestites, women of all ages, beautiful or ugly, and many people without a trade rascals and others, scrambled in all directions, trying to find their place... Some, foreseeing that property on this street would climb to top prices, seized all the houses for rent as well as apartments; they did not leave even attics and basements. A cobbler who worked under four planks had the idea of changing his little hut into an office that he decorated with little stools where women attracted to the area by curiosity could sit. Seeing that this idea worked for him, he abounded his trade in order to furnish pens and paper. His efforts in this new trade earned him two hundred pounds a day, at the height of

the activities. Here was no one, no matter how helpless he was who, in the wake of trading that was going on in this place, did find a livelihood and even save for the future. Those who neither talent nor profession had decided to offer their backs to shareholders who could not get rid of the crowd were delighted to use them for calculating the profits of their operations"⁸. The unlimited issue of bank-notes by the Banque Générale was accompanied by the withdrawal of coins from circulation. As a result, Stock Exchange speculation reached an unprecedented scale and culminated, in 1720, in the bankruptcy of the bank, plunging France and Europe into a grave economic crisis, which had an important role in setting the stage later for the French Revolution.⁹

In the recent study by André Gueslin (1992) we can find the confirmation of a usury type of French capitalism. Indeed, despite an expansion between the 1880s and 1930s, the banking sector played a modest role in the development of the industrial sector, measured in terms of credit policy. Apart from the railway enterprises, all others had difficulties in drawing French investors. People preferred to invest in government bonds and in foreign securities rather than in equities, and enterprises were hostile to borrowing to banks. Between 1850 and 1870 Paris was probably the first place in Europe for foreign exchange; far and wide in the 19th century, France has been an exporter of capital mainly in Europe and primarily in Russia. These were for the most part government loans and not investments in industrial undertakings. Lysis wrote: "The French are the usurers of Europe". In this respect Lenin's conclusion can be taken to mean that unlike British colonial capitalistic accumulations, French capitalism might be termed as financial one. Gueslin says that France was becoming in the pre-World War I period a nation of rentiers.

⁸ According to Marmont Du Hautchamp *Histoire du Système des finances sous la minorité de Louis XV pendant les années 1719 et 1720, précédé d'un abrégé de la vie du duc régent et du sieur Law*, La Haye, Chez Pierre de Hondt, 1739, cited by Edgar Faure (1977).

⁹ The effects of these banking schemes on France were so traumatic that, until recently, the term "bank" was boycotted by French banks in order to avoid stoking up memories of an unlucky institution created by John Law. The common substitute term is "credit", as in "Credit Lyonnais", "Credit Agricole", and «Credit Foncier".

Neo-classical theoretical literature speaks of the relative immaturity of the French financial system, arguing that compared to the London Stock Exchange, smoothly regulated, it was inefficient because the state controlled it. The UK system was more cost-effective, because it had a microstructure organisation with free entry of investors and issuers that decreases in theory transaction costs and impels financial product diversification. P-C. Hautcoeur and A.Riva (2007) contest the inefficiency of French finances which was in reality a multi-polar organisation, satisfying the heterogeneous enquires: the Parquet (the Bourse) was matched by the Coullisse (free market) and inter-bank operations were rather developed.

One century ago a financial industry already existed in France. As proof of this, I cite information from the article by Eug. Kaufmann in *Die Bank*, 1909: "One of the three biggest French banks, the Credit Lyonnais, has organized a financial research service, which permanently employs over fifty engineers, statisticians, economists, lawyers, etc. The service is divided into eight departments: one specializes in collecting information concerning industrial establishments, another studies general statistics, a third railway and steamship companies, a fourth, securities, a fifth, financial reports, etc" (cited by Lenin (1917)).

Nowadays (in 2005) the banking industry in France contributes 2.8 % of the GNP. By comparison: the automobile industry – 1%, the food-industry – 1.8 %, and energy – 2%.

Financial science prolongs French traditions, which are not founded on equity trust as in the financial innovations linked to the pension industry, but above all on the shared believe in the possibility of forecasting economic development and managing it lean on the financial industry.

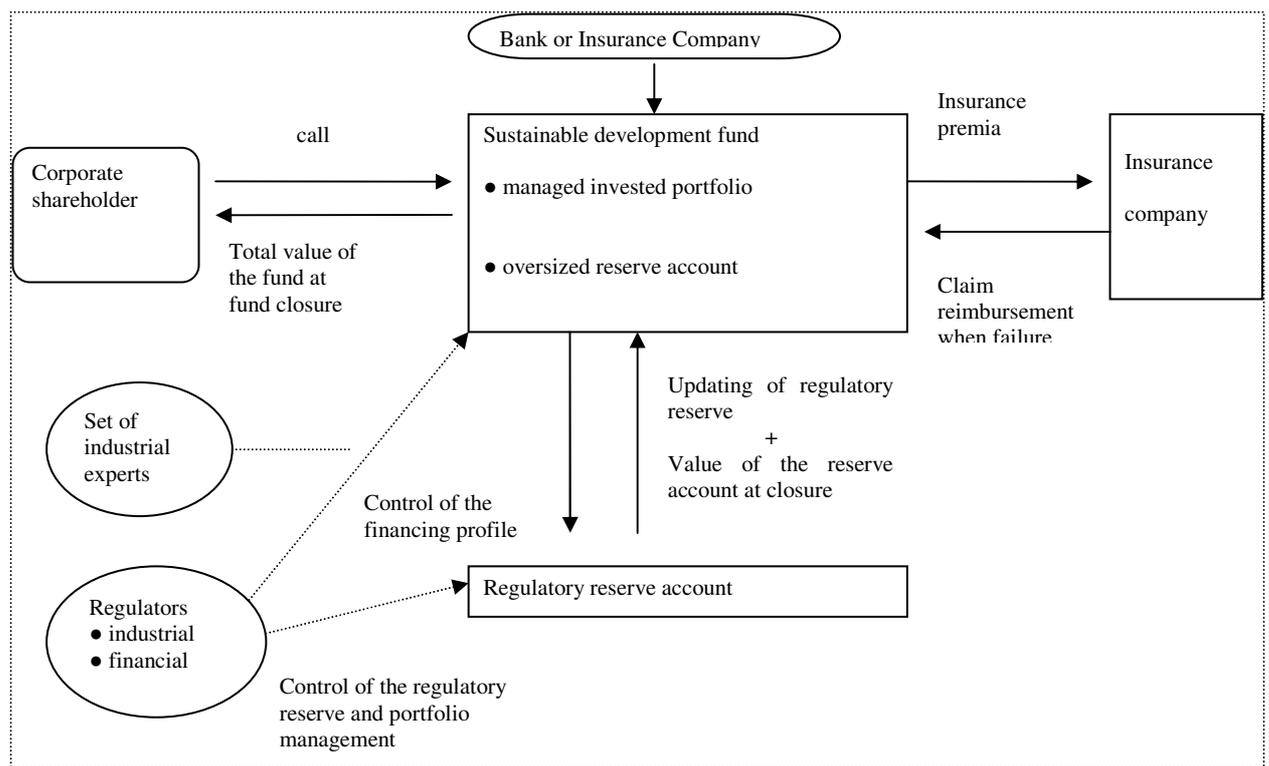
A recent paper by C. Gouriéroux (2007) puts forward such a type of achievement. It stresses the importance of sustainable development, and it gives a precise scheme of creation and regulation of special funds (shared between sovereign and private mandatory funds) for achieving this target.¹⁰ The risk to be hedged has some characteristics: 1) The cost to be hedged

¹⁰ For instance, it can be a fund set up to cover the future costs of cleaning up and the regeneration of soils following the closure of a nuclear enterprise.

is very large, which requires a progressive financing plan; 2) this is a long term risk, that is why risky assets must provide better return in the long run without a large increase of volatility due to a possible diversification over time; 3) such funds can become mandatory, their management has to be controlled to avoid too large risk taken, and they are likely to be submitted to international regulation; 4) as it is difficult to know precisely the date of the closure of a firm and the clearing-up cost, a system of margin calls has to be introduced to account for the more accurate expected date of closure and expected cost.

In Figure 1. the proposal of such funds is presented in its structural environment within a modern financial industry: corporate shareholder, insurance company, different types of industrial and financial control devices.

Figure 1 : The structural environment



Such an example of a sustainable development fund is essentially a managed financing plan, where the amount of credits is paid at maturity, not at the beginning, and the monthly payment can be reinvested. The existence of such funds avoids direct control of the firm and its financial

strategies. It can probably diminish the global financing cost by the high seniority level, which can be attributed to the debt.

Rent and Russian sovereign-wealth funds

In Russia financial aspects of the state economy have been studied since the middle of the 17th century, and the classical model dominated until recent liberal economic transformations. There was no need to develop any analysis of financial risks and/or of valorisation of enterprises before, because state property was global and the functions of resources allocation, savings mobilization, enterprise control, trading of goods and services were carried out through planning institutions. Besides this, the semantic and system structure of Russians (using the expression of L.Vygotsky) is based on some economic and cultural signs, which influence the character of financial and insurance industry development. Among them, eternal dependence of economy on natural resources and eternal problem of rent¹¹ relations. For example, at the end of 19th century B.Maleshusky, introducing the theory of insurance, wrote: "the theory of rents should be a natural introduction to [my pension theory], because the formulas of the latter discipline represent a significant analogy with the formulas of the former." A.Glagolev (1891) described the theory of composite interests and rent theory as the basis for financial mathematics.

The Russian economist-academician Dmitry Lvov estimated in 2005 that 75% of all undistributed profits in Russia are provided by natural resources: gas, oil, forest, fish, etc. Accordingly, basic earnings are created by nature, that is to say we face absolute ground-rent, and its owner should be monetary honoured. In Russia the owner is either the entire population, or its representative, the state.

¹¹ Classical economists argued that the main source of government revenue is taxation of profits, wages and land rents, which have a single value substance and are the origin for other incomes. As the three primary sources of income are interchangeable as tax revenue, then any State has the possibility to choose among some alternatives an optimal, from the societal point of view, tax system. Such a system is one where the tax burden falls on rent income from the use of land and other products of nature. See Marx (1867).

In the USSR era the surplus of the rising prices of natural resources was used mainly by the stat for military purposes and for international economic help.

After the liberalisation of the Russian economy in 1992, ground rent was grabbed by private companies¹². What was wrong was that until 2005 a large portion of the surplus was transferred by companies' owners in foreign countries to their personal accounts.

At the present, oil-rich Russia, encouraged by the rising price of petroleum, has retained a vast amount of international assets in the form of reserves – government-controlled funds. Russian authorities began by constituting the state Stabilization Fund, financed from the extra profits of the budget, based on the cost of one barrel of oil in excess of \$27. It included also the profits gained from the savings on interest-bearing payments in the case of early pay off of external debt. The Stabilization Fund is made up to oblige the recurring expenses of the budget to remain below the minimal receipts, i.e. receipts which would be always collected, independently of the economic situation in the energy resources markets. The state makes a decision to save, so as to ensure the normal development of the country in the event of abrupt deterioration of exporting conditions. In 2006 the Russian Stabilization Fund was estimated as one of ten biggest sovereign funds in the world (see table 1.).

Table 1. Biggest sovereign funds in 2006

Country	Name	Mds\$	%GDP2006
United Arab Emirates	Investment authority of Abou-Dhabi	625	520.7
Norway	Pension government funds	322	102.6
Singapore	GIC	215	169.0
Kuwait	Investment authority of Kuwait	213	268.7
China	China Investment Corporation	200	8.0
Russia	Stabilisation Fund	127.5	14.2

Source: Lyons, G. "State capitalism: The rise of sovereign wealth funds", cited from Coeuré (2008)

At the beginning, the savings of the Fund were converted into foreign currencies and paid to the accounts of the Russian federal Treasury. The operations of placement of the surplus receipts

¹² The way of doing it was the following: if the average tax rate on corporate profits was 24%, it was, for example, significantly lower for oil companies.

of the Funds were entrusted to the ministry for Finances and to the Central Bank, which managed the accounts in foreign currencies. The Ministry for Finances invests the funds in foreign assets in three accounts, one in dollars (45%), another in euros (45%) and a third in pounds sterling (10%). The Russian Central Bank proceeded with the acquisition of the claims of 14 developed foreign states. It prefers to compose its portfolio of low risk public obligations. For the moment, the Russian authorities do not have enough boldness to invest these large public money sums of the Stabilization Funds inside Russia, and to convert them to Russian financial instruments. The shared opinion exists that the fund placed in inside assets, can not serve as a reserve regardless of the state of the national economy. In the event of economic crisis, national currency and domestic obligations are usually devalued, thus the fund would be devalued too. The Russian financial system faces a common problem: How to establish what the obstacles are to countries buying each other's bonds to diversify national risk in government reserve funds? One probable limit to a bond immunisation strategy for savings is whether sufficient indexed government bonds exist to match the potential demand. Currently the demand outstrips the supply, indicates D. Lindeman in an OCDE (2003) note.

At the end of March, 2007, the Russian parliament approved the reform of the budget. The budget is now formed without the components of revenues generated from oil and gas, which will be used to form two new funds: the Reserve Fund and the National Wealth Fund. Thus, the Stabilization Fund ended its existence on January 1, 2008, and it is evaluated at 144 Mds\$. The Reserve Fund will not exceed 10% of GDP (that represents about 120 Mds\$ at the end of 2007), and if the revenue of fuel sales surpasses this amount, it will complete the National Wealth Fund. At the beginning (February 1, 2008), this Fund holds about 40Mds\$. It is used to co-finance optional pension savings and to discharge the pension fund deficit. Both funds will target investments abroad in firms with a rating more than AAA- (evaluated by Fitch or S&P). No one firm in Russia has such a high rating. They certainly must avoid recapitalisation of western

banks, in 2008, which were not acquainted with evaluation of their operational risks. The Ministry of Finance must provide information monthly through its site the volume of receipts and of their deployment.

This reform of the federal budget is an obvious mix of classical and neo-classical financial politics. This is a “classical” financial one, because it ministers to the State Treasury, and it is “neo-classical” because it uses funds as tool of management, like private property.

Thus the Russian financial industry is developing on the basis of the new Fund of Reserve with an aim to incorporate international investment regulations, and as the basis of the Fund of future generation to innovate and build sustainable development pass. The former fund needs new professionals of risk analyses, operating in the context of social insurance ideas (security rights) and of non-for-profit saving¹³ (sovereign ownership right).

Discussion: The financial industry as an activity of risk management in different socio-historical contexts

The financial industry is an economic sector producing 1) the means of transactions between other economic sectors and 2) services of insurance for control of various risks. It is generally admitted that this activity derives from the management of the contradictory (in its aims) trust of pension funds in the US, but has been used to satisfy other demands in different circumstances. The US pension industry created an interesting precedent and the financial industry developed because different types of funds were introduced with various objectives, sources and regulation rules. For example, international mutual funds provide managed portfolios to individual investors. The regulation principles were elaborated stipulating that such funds can be invested in bonds or stocks with specified proportions and without short sell. Hedge funds have more speculative objectives and can be invested in a large array of assets: options, swaps and short sell

¹³ Non-for-profit firms or firms operating with “disguised” profit objectives are those that use surplus income for internal development.

are allowed. The financial professions resemble each other more and more because of the standardization of controls in Finance and Insurance (Basel II, Solvency II) and the proliferation of joint products, particularly in France.

The new “sovereign-wealth” funds are used to realise a new type of nationalisation, opines the American economist Larry Summers. He writes “A signal event of the past quarter-century has been the sharp decline in the extent of direct state ownership of business as the private sector has taken ownership of what were once government-owned companies. [...] Yet governments are now accumulating various kinds of stakes in what were once purely private companies”. The question is: how can new financial reserves best be used? One can use them in shaping the fund for public scientific and innovative development, or as the fund for national technological agencies, or for programs of regional training. The resources can be used also to support exports, to reduce the tax load on firms (compensation for falling incomes), or for the expansion of credit for restructuring. The management of reserves can introduce innovations within social insurance schemas. It must give scientifically proven answers on such questions as: Do investment regulations require some form of asset-liability matching? Do mature plans tend to invest more in fixed-income securities? As in a world of portfolio-choice defined contribution schemes, there is no external actor over which to spread volatility risk, thus each country has to determine its volatility risk tolerance level.

It became possible to construct a new planning theory, which would be in symbiosis with financial industry achievements.

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