

ECONOMIC THEORY

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NATIONAL WEALTH AS AN ECONOMIC CATEGORY: EVOLUTION OF SCIENTIFIC REPRESENTATIONS

SUMMARY. The study of national wealth and factors critical for national wealth growth is one of the central problems in economics. The successful solution of these problems is a necessary prerequisite for stable development of any country. The accumulated wealth is closely linked with economic development and components of the accumulated wealth serve as key factors of economic growth. For a very long time the essence of national wealth as an economic category had been found to be controversial despite the numerous economic discussions. At a later stage, however, economists came to understand more comprehensively the laws and forms of accumulation and distribution and managed to develop a scientific doctrine of national wealth. The present-day theory of national wealth makes a deep insight into the mechanisms of capital accumulation and includes three interrelated constituents: human capital, natural capital and reproductive capital. The new approaches to measuring national wealth take into account a broad range of theoretical and methodological issues, such as sources and essential components of national wealth, mechanisms of reproduction and accumulation of intangible assets to stimulate national wealth growth and improved methodology for an adequate evaluation of wealth and its components.

KEY WORDS. National wealth, economic growth, reproductive capital, natural capital, human capital.

Wealth of a country, nation, people and social wealth are economic issues, which have emerged along with the growth of economic science. From ancient times to the modern period representatives of almost all the scientific trends have been paying attention to national wealth and studying it in their works. In the course of time the category of wealth has been expanded encompassing more and more elements. At

present the study of national wealth and its growth factors is the basis for the development of international economics.

Ancient philosophers treated articles of consumption as the elements of wealth and labor and land as the basic factors of its creation. For example, wealth is understood as “the land inhabited by people” who pay taxes in the ancient Indian treatise “Arthashastra” (IVth century BC) [1;12]. The ancient Eastern philosophers studied mainly national wealth not personal. Even then they tried to offer recommendations as to how to collect taxes best and defend oneself from state-fund embezzlers.

On the contrary ancient Greek and Roman philosophers studied personal wealth and it was considered an article of consumption. According to Aristotle wealth is “the number of economic and political means (tools) necessary for life and useful for the community of the family or state” [2; 389]. Thus, a person is wealthy if his needs are satisfied and he has normal living conditions.

In the Middle Ages, wealth accumulation was evaluated in terms of good and evil. Due to the existing conditions when the living standard of people was very low and their life was governed by the rules of morality, there was a negative attitude to wealth its accumulation. For instance, Yermolai-Erasm dispraised wealth on the grounds that it “ot vlastvuyushchikh kovarstv nasiliem ili nekimi ukhishchreniyami mnogo sobiraemo, ot svoego zhe truda mnogo bogatstvo nikomu ne moshchno sobrate” (is accumulated by force and tricks through insidiousness in large quantities, whereas no one can accumulate much wealth through their own labor) [1;24]. Thus, thinkers of the Middle Ages emphasized national wealth rather than individual.

The study of wealth was further defined by Antoine de Montchrestien, a representative of the early mercantilist era. He equated wealth not to physical products but to gold and silver supply. Natural resources and manufactured products were also considered wealth. At the same time wealth as the accumulated reserves of capital and durables was underestimated. It was then when a new notion of “national wealth” was introduced in scientific circles, which substituted the more common theological term of that time “common good”.

Physiocrats, who shifted the study of the origin of wealth from the sphere of its circulation to the sphere of its production, having narrowed it down only to rural economy, also contributed to the theory of wealth. They singled out the fields that participate in wealth production (agriculture and fishing industry) and fields that derive elements of wealth from nature (extractive industry). Thereby they discovered that in order to accumulate wealth there should be excess (net product) over the resources used in production; that in itself is the accumulation of tangible wealth created by human labor and land.

The first attempt to measure national wealth was made by an English scientist William Petty. He believed that wealth is created by labor in the sphere of material production and the process of circulation ensures its distribution. In his opinion, “labor is the Father and active principle of wealth, as lands are the Mother [3; 55]. William Petty linked national wealth of each country with its share in foreign trade. Production of goods and trade, which always promote accumulation of gold and silver in any country, are more profitable than other kinds of activities.

Over time different terms reflecting understanding of the category in question were applied. Thus a scientist and economist François Quesnay in his work "Economic table" (1758) considered wealth an annually reproduced flow of products that is interrupted by consumption and resumed by men's labor. All the tangible property (moveable and real) in public ownership was also included into national wealth.

In Russia, the first attempts to study national wealth date back to XVIII century and are related to such outstanding researchers as I. T. Pososhkov, A. C. Storch, and M. V. Lomonosov. I. T. Pososhkov included immaterial welfare such as order, concord and harmony, i.e. spiritual notions, in national wealth. In his opinion, material welfare consisted not only of goods and money, so essential for satisfying people's needs, but also of the ability and skill of any peasant family to earn profit [4; 170]. As for A. C. Storch, he referred the complex of material welfare to national wealth, the complex of immaterial welfare to the national civilization, and a combination of both, material and immaterial welfare, to "national prosperity". M. V. Lomonosov found people to be an important element of national wealth: "The main principle of this I consider the fact of preservation and reproduction of the Russian nation; that is a majesty, power and wealth of the whole country ..." [5; 310]. To conclude, Russian economists single out not only material (tangible) but also spiritual (non-material) welfare, particularly the Christian morality of Ancient Russia.

Later on a new concept grounded on the labor theory of value emerges in the understanding of the term "nation's wealth". In his paper "An Inquiry into the Nature and Causes of the Wealth of Nations" (1776) Adam Smith strongly opposes his forerunners' thesis on the exclusively monetary nature of "people's wealth". He interpreted wealth as a flow of products annually reproduced by communal labor of the society – land and labor production, annual income of all the citizens. Money is only a part of wealth, one of its kinds: "...money is always a part of the national capital..." [6; 16]. He underlined that accumulation is the key to the nation's wealth and believed that its amount depends both on the share of the country's population engaged in productive labor and on the labor productivity, regarding its division. Thus, he managed to prove that with the development of the process of capital accumulation labor stops being the only source of the value of the goods and that not circulation but material production and growth of the mass of commodities composing the nation's, society's and country's wealth are important.

Karl Marx elaborated on the theory justifying the essence, sources and forms of "capitalist wealth" as well as creating methodological background for the definition of national wealth as a special category of public reproduction. "In fact, however, when the narrow bourgeois form has been peeled away, what is wealth, if not the universality of needs, capacities, enjoyments, productive powers, etc. of individuals, produced in universal exchange? What is wealth if not the absolute development of man's domination over the forces of nature, i.e. over the forces of the so called "nature" and the forces of his own nature? What is wealth if not the ultimate display of human creativity..." [7; 275].

By determining the sources of social wealth as labor and nature he singled out its constituents as follows:

— natural wealth – natural resources as the basis of all values created in the process of human activity in its interaction with nature;

— social wealth – the sum-total of the accumulated material values (everything that is the result of human labor).

According to Karl Marx, national wealth is “everything that is not the result of human activity or the result of labor is nature and as such it is not social wealth” [8; 446]. Herewith he assumed that labor is the constructive basis for wealth and acts as a universal measure of wealth that can quantitatively express the sum of its elements.

Such interpretation of wealth by K. Marx became the baseline for the investigations in this sphere, and modern scientists still rely on his classification criteria employed for the structural analysis of national wealth.

An English economist Alfred Marshall developed a theory of his own on wealth in the famous “Principles of Economics” (1890) where he made K. Marx’s ideas on the content of wealth and its classification types more specific. Alfred Marshall introduced new notions related to the issue of wealth. In particular, he claims that any wealth consists of material and non-material values satisfying various human needs. “Economic wealth” is wealth that can be measured in terms of money i.e. state bonds, mortgages and other liabilities” [9; 114]. At that moment the tradition which has led to the inclusion of the fictitious capital into national wealth (directly as part of financial assets) by the modern international System of National Accounts was established. “Personal wealth” according to A. Marshall means inner material values – powers, skills and capabilities which directly ensure productive efficiency of a person (elements of human capital).

This concept of wealth with its basic monetary valuation slightly departs from the idea of its labor basis and as a consequence differs from the position of both A. Smith and K. Marx.

Thus, by the beginning of XX century the concept of wealth had been formulated, the main sources of its production had been defined and the valuation of national wealth of the developed countries had been estimated. Then everyone interpreted wealth as a sum of the goods produced in a country and linked its increase with the supplies of such resources as land, labor and capital. These three factors of production were accepted as the elements of wealth.

In the Russian science of XX century there were also attempts to study national wealth of a country. However, the economic approach was based on Marxist theory where tangible assets were considered the main factor of economic development and labor as the source of all material savings served as its foundation.

The first Soviet researcher of national wealth is S. G. Strumilin who defined national wealth as “material values accumulated as a result of labor natural resources involved in production; other, not processed with labor, natural resources are only the potential wealth of a nation... they are subject to accounting but, not being the

product of labor, cannot be estimated and do not form a real part of national wealth” [10; 46]. The author did not include natural resources into national wealth of a country; only those resources involved in the production process in this or that way can be treated as part of national wealth.

A. L. Weinstein in his work “National wealth and national economic accumulation in pre-revolutionary Russia. Statistical investigation” (1960) viewed national wealth as the totality of materialized labor. In his opinion, national wealth is the key factor that defines a country’s income, level of labor productivity and welfare of its people.

A number of Soviet scientists offered a very broad interpretation of national wealth. For instance E.M. Buchwald, L.I. Nesterov and V.N. Bogachev in their work “Problems of reproduction of national wealth: social-economic aspect” (1984) gave the following definition of national wealth: “the aggregate results of labor that is materialized in different spheres of activity and necessary for a given society in order to maintain the normal reproduction process” [11; 8].

Russian theorists and statisticians began to include natural resources (natural wealth) in national wealth suggesting that it should be measured in natural units. They appealed to the fact that nature takes part in creating the use-values that form materialized wealth in any society (A.I. Gozulov, M.V. Kolganov, and A.D. Kursky). Detailed reasoning in favor of including the natural factor in national wealth is given in A.V. Sidorovich’s work “National wealth under socialism” (1985).

We can conclude that the category of national wealth was understudied by the Russian scientists of the XX century in their economic research. Although nowadays it is being seriously revalued; this is connected with a deeper understanding of the essence of this important integral category revealing a country’s economic situation and potential.

In his work “Russia: Lessons of the Past and Images of the Future” (2000) N.P. Fedorenko, analyzing dynamics of the development of national wealth in Russia over the past 100 years, concludes that accumulation of the country’s national wealth was very erratic and names the objective and subjective reasons for its fluctuating growth.

Nowadays economists again pay much attention to the methodological and informational problems of national wealth valuation. Researches in this sphere are centered in the specialized international organizations – The United Nations (The United Nations Statistical Commission, The United Nations Development Programme – UNDP) and The World Bank.

The United Nations Statistical Commission worked out recommendations on designing The System of National Accounts (SNA – 93). The SNA contains a list of individual components of national wealth including its material and non-material elements. In order to characterize this category the term “economic assets” is employed in the SNA and the notion “national wealth” is interpreted as the sum-total of the accumulated non-financial and financial assets of a country at a given period of time (Figure 1).

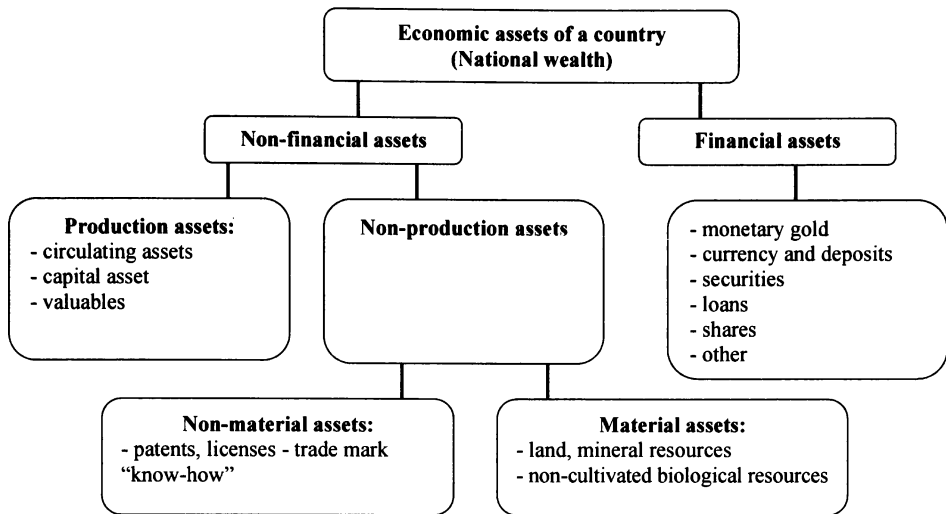


Figure 1. The Structure of Economic Assets

In Russia valuation of national wealth is done in accordance with the international standards. According to the data presented by the Russian Federal State Statistics Service, the worth of Russia's national wealth (excluding the worth of land, mineral resources, woods, etc.) was 140 trillion rubles by the beginning of 2012, which is 6 times higher than in 2000 [12; 341].

A new methodological approach to defining the category "national wealth" was suggested by the specialists of the World Bank in 1997. They assumed that national wealth consists of three components: natural capital, reproductive capital and human capital.

The changes in the approach were explained by the transformation of the global social-economic system, its new scientific interpretation, and transition from the theory of factors of economic growth to the theory of "sustainable human development" and its potential.

Apart from that the World Bank experts offered a new indicator – "national wealth per capita".

According to the data presented by the UNDP and the World Bank the simplified structure of the accumulated national wealth in 110 countries in 2000 included: 58% - human capital, 26% - natural capital, and 16% - reproductive capital; see Figure 2 [13; 29].

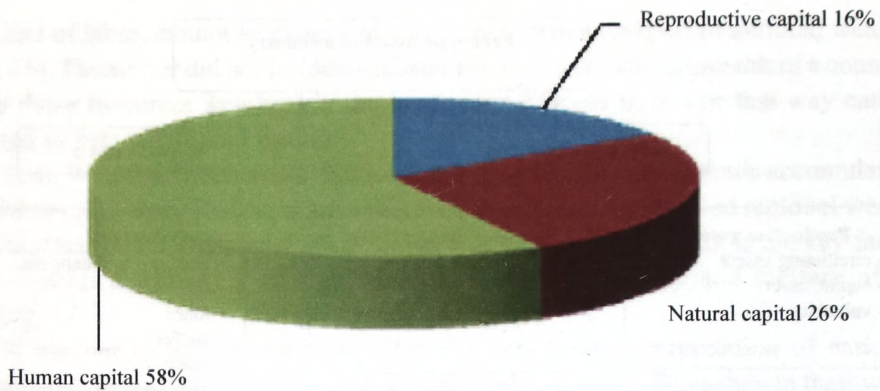


Figure 2. The global structure of national wealth

Since then the World Bank specialists began to publish expert valuations of national wealth and determine the share of all its structural constituents in the world on the basis of the extended concept. These calculations have shown that by the beginning of XXI century the biggest national wealth per capita was possessed by the USA, and then came Russia, Japan, Western Europe and Australia, Canada, and New Zealand. However it should be noted that contemporary scientists presupposed the existence of equal conditions of the market economy development and international price levels while estimating the corresponding indicators. Therefore for a number of countries, including Russia, the calculations reflect the scale of the existing potential of the elements of national wealth rather than the real value in local prices calculated in USD.

According to the World Bank's expert calculations, Russia's national wealth is estimated at approximately USD 60 trillion, or almost USD 400,000 per each Russian citizen (see Figure 2). A half of this amount (about 30 trillion) is made up by "human capital" and 2/5 (24 trillion) is made up by "natural capital". Only one tenth of national wealth (almost 6 trillion) is formed by reproductive capital, that is much less than in the developed countries around the world [14; 437].

Summarizing all written above, we can claim that much theoretical and practical material has been accumulated by now in the sphere of scientific study of national wealth; new methods and approaches to its investigation have been suggested. Among the foreign scholars studying national wealth we can single out Th. Schultz, L. Thurow, and G. Becker, who are developing methods of human capital valuation, W. Nordhaus and J. Tobin engaged in estimation of economic welfare.

Many Russian economists, such as E.M. Buhwal'd, L.I. Nesterov, S.D. Valentey, and V.N. Cherkovets, offer a detailed analysis of the elements of national wealth and the changes concerning the role of national wealth during the period of transition from a command economy to a market economy. A.I. Dobrynin and S.A. Dyatlov are involved in human capital assessments; V.D. Adrianov and O. Dumnov focus on a

broad range of issues linked with natural capital and add an ecological component to the notion of national wealth.

Consequently, at the contemporary stage of development of economics, studies of national wealth are still being conducted focusing on specification of the conceptual framework and distinctive features, definition of the structural elements, sources of origin, processes of reproduction and accumulation of non-material components of national wealth, as well as improvement of methodological principles of valuation of national wealth and its components.

We can summarize that modern society seeking steady economic growth requires a systematic theory of national wealth which combines both the traditional tangible (reproductive capital, natural resources) and intangible (social and institutional characteristics) welfare. At present national wealth is the basis for the stable economic development of any country.

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