

Debt security of the state

Боргова безпека держави

Valentin Fedorov

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state debt, debt function, debt security, modern state.

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Globalization (as an objective process), according to its content, reflects the world order which is changing and rather rapidly in further on the basis of world centers power moving and transformation processes, occurring in international, regional and national social and political systems¹.

For a contemporary state the stability of financial system means state ability to fulfill its functions qualitatively in the event of unforeseen shocks of various natures, especially in the light of both economic and other crises of modern world, where clear definition of the scope and size of state debt and effective realization of debt function are determined as the most important state task.

In addition, it is considered very important how the information about these or other debts will be presented in cyberspace.

One of the most actively discussed issues is the problem of reduction of the powers of the state institution, which has lost a significant part of its traditional functions, some of which are "intercepted" by transnational and international structures and another part is transferred to local authorities and civil society.

According to I. Wallerstein, the main reason of state crisis of modern society is the loss of faith in the state as a "facilitator" of reforms and a bulwark of personal safety.

M. Castells believes that the crisis of the state legitimacy leads to a narrowing of the sovereignty of national states. Not only state institutions, but also traditional family values lose their authority and that leads to a disruption of sequence in the transmission of cultural codes from generation to generation. The state's withdrawal from such vital areas for a human as a social and cultural spheres, threatens with the loss of valuable sense of being.

In the opinion of Professor S.P. Peregudov, "the modern state has not surrendered its position of globalization, and its ability to manage the economy has not disappeared. But the forms of this management have changed, consequently its strategy, and therefore the "new role" of the state in the globalized economy should not be evaluated as such that decreases or disappears at all, but it simply changes". The state's ability to make a positive contribution to economic development is not determined by its strength, but by its ability to create and maintain "network structures" in which, together with private group interests, it develops and implements an effective, coordinated and targeted economic management within and beyond national borders². It should be noted that the debt function in this context contributes to the achievement of financial stability, and in the short term, to the price stability.

But despite the fact that there are serious contradictions and discrepancies in the conceptions about the role of the state in the global space, most researchers note a trend of weakening of the national state, the erosion of its borders and the destruction of traditional political relationships under the pressure of new political actors. We are talking about transnational subjects of power that displace national institutions and that are not controlled by the international political structures.

¹ Яковец Ю.В. Эпохальные инновации 21 века. М.: ЗАО «Издательство «Экономика», 2004. С. 2.

² Перегудов С.П. Новейшие тенденции в изучении отношений гражданского общества и государства. Полис. 1998. № 1. С. 139–144.

Globally oriented economy weakens the mechanisms of regulation of domestic policy, making the state controlled by the global financial markets whose interests are in contradiction with national interests. Economic globalization not only reduces the importance of the nation state, it undermines the national sovereignty and independence.

Particularly the importance for the legitimacy of the state is its inability to meet its obligations as a guarantor of national security.

Most modern researchers note that not all states can fit into the new economy successfully. International economic processes that previously successfully regulated bilaterally develop into the non-state relations, and therefore there are erosion and depreciation of the regulatory functions of the state. Information, financial and other processes associated with globalization, reduce the ability of national governments to control the political situation and its management.

Reinforcing its position transnational actors operate worldwide and don't recognize the borders that all increasingly undermine the ability of the nation state to ensure the welfare of citizens, at least partially deprives its traditional structures, technology of management and control.

Since the middle of last century there is the special role of the global financial system, the scope and force of impact on the national economy which were unprecedented. Cross-border financial flows linked so that the financial difficulties faced by one or more national systems can directly affect on other parts of the global financial system. The intensification of international trade relations has various consequences not only in economy. The development of regional trade agreements, global system, institutionalization change the role of the nation state, its protectionist functions significantly reduce not only trade tariffs and quotas, but internal politics are at the center of international institutions and organizations³.

The accumulation of sovereign debt, reaching historical highs in developed countries, leads to rethinking the challenges and threats to financial security in a global world. Despite the optimism, expressed (with caution) by experts in relation to the post-crisis global recovery, there is a belief in the duration of the problem of unloading financial imbalances.

Now scientific discussion is dedicated to a wide range of issues related to features of accumulating public debt and its management during a slowdown in global economic growth, the effective implementation of the debt function. Among the current research work should be called C. Reinhart and K. Rogoff⁴ considering problems of finding mechanisms to reduce sovereign debt, including financial repression, like any public policy measures that prevent the free market activities and also change the value of the debt or exchange rate.

The financial repressions include targeted credits from government to national entities with a help of administrative measures, explicit or disguised restrictions of interest rates, of capital flows, manipulation by economic conditions through a state share in banks.

Financial repressions are sometimes associated with an increase in reserve claims (or liquidity claims), taxation of securities transactions, prohibition of gold purchases or placing a large amounts of government debt at non-market rates. The main motive of financial repression is to increase the capacity of the state to finance debt to avoid appreciable consolidation.

On the importance of taking into account the features of credit and financial cycle in justifying measures of monetary, fiscal and macroprudential policies for the effective reduction of sovereign debt insist D. Aykman, C. Borio⁵.

Engineering tools and mechanisms to reduce the debt burden to avoid a sovereign default are considered in works of J. Kaiser, W. Panizzi, P. Bolton, D. Skil and others⁶. Scientists emphasize the overall increased risk gen-

³ Васильева Т.А. Трансформация функций института государства в условиях глобализации. *Власть*. 2007. № 10. С. 11–12.

⁴ Reinhart C.M. The return of financial repression. *Financial Stability Review*. Banque de France. 2012. № 16. URL: http://www.banque.fr/fileadmin/user_upload/banque_de_france/publications/Revue_de_la_stabilite_financiere/2012/rsf-avril-2012/FSR16-article_04.pdf.

⁵ Aikman D., Haldane A.G., Nelson B. Curbing the credit cycle. URL: <http://www.voxue.org/article/curbing-credit-cycle>. Borio C. Macroeconomics and the financial cycle: Hamlet without the Prince? *VOX: Portal set up by the Centre for Economic Policy Research*. 2013. February 2. URL: <http://www.voxue.org/article/macroeconomics-and-financial-cycle-hamlet-without-prince/>.

⁶ Kaiser J. Resolving Sovereign Debt Crises: Towards a Fair and Transparent International Insolvency Framework. Friedrich Ebert Stiftung Study. URL: <http://library.fes.de/pdf-files/iez/07497.pdf>.

erated by international sovereign finance sector, and dangerous accumulation of debt capacity in the sovereign sector is considered as a trigger of reformatting the international financial architecture.

However, scientific and applicative researches of debt burden of international sovereign sector do not provide the definitive answers to solve debt problems. In this context, the relevance of question of the impact of globalization on the formation of public debt is in the conceptual definition of safe indicators of accumulation of public debt for the international and national financial systems and international areas of settlement processes.

One of the Keynes' financial concepts is the provision for the need to raise public expenditure financed by loans. His followers called this provision a "scarce financing" principle. As Keynes argued, public investment and current state expenditures can be financed by debt, moreover, the growing debt of the state and local authorities will inevitably reach "effective demand". According to Keynes, obligatory compliance of budget expenditures and revenues is anarchism, and the fear of budget deficits and the growth of public debt is a harmful superstition⁷.

The state must compensate for the lack of necessary private households' demand for budget deficits, that is, the expansion of public investment, mainly through the issuance of loans. It is argued that public debt is a necessary precondition and a necessary structural element of even economic growth.

However, due to the threat of a debt crisis not only in developed countries, developing countries, but also in some countries, the relation to the problem of public debt has undergone significant changes. In the 90's of the last century, many countries have taken decisive steps to stabilize debt dynamics and achieve the target of debt-to-GDP ratio. Consequently, received its actual embodiment and relevance of the debt function of the state.

All this raises the problem of development of debt financial instruments in a number of the most relevant for modern economic theory and the theory of law. Moreover, it is important to study the various models of public debt management through debt obligations, as well as the adaptation of the most effective schemes to the current conditions of the state's activities, i. e. the introduction and development of debt functions.

The provision of a debt security of a modern state remains the most urgent area for discussion. The fact that the consequences of spreading public sector debt problems to other areas, the difficulty of obtaining reliable information about existing and potential risks of sovereign debt accumulation, identifying safe debt accumulation criteria for each individual country and the ability of states to meet debt obligations in proper time that's just a partial list of issues the delay in solving which strengthens global financial instability.

Trends of international debt-sovereign sector testify to the advanced rates of accumulation, it is the sovereign commitments, while other sectors level of debt held or even reduced. This trend may indicate the negative consequences of "saving" developed countries systemically important financial institutions and the practice of purchase of "toxic assets". Appropriate steps significantly worsen the state of sovereign finances, so we should expect deterioration in the terms of borrowing in international markets for the sovereign sector, as well as the complications of finding sources of refinancing sovereign debt.

Should be also named a number of regularities of formation of public debt that can be tracked on the global market for public debt and securities. So, the developed countries, which have become the generator of the recent financial crisis, have traditionally played a major role in the accumulation of sovereign debt.

Of course, positive achievements are given for States of financial discipline and optimization of operating costs, achieved through fiscal consolidation. The growth of the debt burden indicates the absence of positive changes in addressing systemic problems – lack of economic growth to cover debt flows and the lack of mechanisms, given the financial, real debt reduction (restructuring only postpones the payment and, usually, worsens the General conditions of borrowing).

In this context, it is difficult to assess the safety of the global solution to the debt problems. The world Bank, the IMF, notes that slow economic growth is the main prerequisite for the emergence of risks. Therefore, the forecast of the world Bank referred to the significant potential negative impact of the Eurozone on the destabilization of the global market and the need for significant improvement in public finances, enhance the formation of pan-European banking Union and sovereign rescue funds. In the event of a loss of political initiative in undertaking these activities, the world Bank predicts a high probability of limiting access some of the Eurozone

⁷ Кейнс Дж.М. Общая теория занятости, процента и денег / пер. с англ. Н.Н. Любимова под ред. Л.П. Куракова. М.: Гелиос АРВ, 2002. 352 с.

countries to the international capital markets, as well as provoking a global slowdown that could reduce GDP of the economies that develop more than one percent.

Therefore, it is necessary to study the financial risks and improve their evaluation and the formation of a system of preventive measures. This work intensified international and national organizations, and supranational bodies that implement anti-crisis and preventive measures.

This certainly does not exhaust the global and national anti-crisis measures taken for refreshing sovereign finance and which are integral parts of the state debt function. We mention only one major trend – focusing on preventive measures – predicting and preventing crises. Any state in modern conditions of growing instability of the environment is important to ensure an effective system of research and crisis prevention, particularly in public sector debt. However, complexity and systemic nature of modern threats of international financial environment necessitates the improvement of scientific and applied study system solutions in security sector of government debt and improve the debt of state functions.

To reach this goal, it is important to prepare measures as follows: early diagnosis and prevention of financial imbalances; the most probable areas of research and transfer mechanisms of external crises, including the euro zone debt crisis into the national economic and financial system; forming debt-free sources of public debt repayment; compensative implementation of financing mechanisms of the economy in the event of a significant deterioration in external markets; optimizing sources of external funding and capacity to access international capital markets, including the development of modern financial mechanisms.

Thus, the global financial system has accumulated negative risk potential generated by the poor state of sovereign finances and slow economic growth. It actualizes the need for conceptual rethinking of the system to ensure financial stability of the modern state and prospects of sovereign debt accumulation for economic growth, as well as mechanisms to prevent transfers of financial crisis in the national economy. All of the mentioned above makes it necessary to prepare the premature answers to the challenges of international globalization, and pragmatic national security strategy can not be developed without resulting challenges of external and internal globalization factors affecting national security and function of the state debt⁸.

National security, an integral part of which is debt security, is the target object of the state protection and it represents socio-political elements consolidated by the globalization. The pragmatic strategy of the national security can't be developed without considering internal and external factors caused by the challenges of the globalization, as well as a developed strategy in the information field⁹.

It should be noted that globalization has a whole range of positive aspects in the process of influencing a country's debt. Thus, it opens new opportunities for the development as its contributes to the spread of the information, knowledge, new technologies, allows to use the benefits of the international labor division and industrial cooperation more fully than ever before, to use resources, loans more effectively etc. However, it exacerbates the existing contradictions in world, moreover, it generates new dangerous situations, conflicts and crises, leads to the increase of the public spending which, in its turn, results in the increase of the country's debt.

The process of the globalization manifested itself in the international and military sectors a long time ago, during the last decades it started to develop more dynamically in all the spheres of the social relationships, and, especially, economic ones. It is clear that without taking into account this the most important process it is impossible to predict the development of the country, elaborate the set of the state measures aimed at maintaining and strengthening the country's position in the international community.

On the other hand, the process of the globalization can significantly influence the formation of the new world order, decreasing the capacity of the national governments with certain countries' of the international community being dominant, as a result of their economic dependence.

Today it is noticeable that the state debt has increased dramatically and become almost the most painful point of the world economy. European Union countries found themselves in a difficult situation, Japanese state debt demonstrates new fantastic records as well as the difficult situation with US Treasury is obvious.

⁸ Базилюк Я.Б. Міжнародні боргові відносини як чинник глобальної фінансової нестабільності. Фінанси України. 2003. № 1. С. 33–46.

⁹ Лутовитов В.И. К проблеме формирования стратегии национальной безопасности России. Власть. 2008. № 10. С. 16.

It should be noted that globalization leads to liberalization of financial accounts, which means the easy accumulation of state debt.

As the externalities of the global financial crisis there was an increase in the impact of globalization on monetary policy. In Ukraine it is noticeable in the ratio of hryvnia to other world currencies. Thus, it is necessary to determine the degree of exposure of the banking sectors as key drivers of monetary impulses in the globalization process as well as the consequences and prospects for the national economy.

As noted yet in the late XIX century, a known lawyer financier V.L. Lebedev: "State debt is a normal phenomenon in the financial industry of each civilized state"¹⁰. Without it is impossible to imagine the existence and normal functioning of the modern state.

Virtually all modern states have developed a debt system. Moreover, the dependence of national farms on external fertilizers will continue to grow further in the conditions of liberalization and globalization of financial markets, despite the still tangible preservation of their isolation. However, this phenomenon puts states in a subordinate position to financial institutions or other states. This, in turn, negatively affects the debt security of the state.

A special place is attraction of financial resources by the state on a lending basis to cover its own needs, which is an acceptable and objectively determined practice of economic activity. The economic essence of this process is that at a certain time there is a certain amount of free capital both inside the country and abroad. These funds are moving in search of areas of its application. Participation of the state in the international and internal movement of capital is the fact of its entry into the world economic space.

The active policy of the state, both on the domestic and on the foreign capital market, naturally leads to the formation of a public debt, which, in turn, makes the development of the problems of the state's field of defense inaccurate.

Thus, it can be argued that in the existing theories of debt financial instruments, public debt is considered as the main component of economic growth and an integral part of financial policy as a nation as a whole, as well as individual cities and regions, and eventually only new tasks that require for their solution further study of the problem of state debt, debt function and debt security.

Summary

The study of world development, the evolution of civilizations, the role of national states, strategies for ensuring the national security of our time can not be theoretically constructed outside the process of globalization. Such an understanding of the importance of globalization in general theoretical jurisprudence and law becomes a methodological principle. Therefore, in the study of state and law, it is necessary to attach importance to the in-depth study of the next stage (stage) of globalization, its features, as well as the impact on the formation of state debt, which in turn pours on the debt security of the state.

Анотація

Дослідження світового розвитку, еволюції цивілізацій, ролі національних держав, стратегії забезпечення національної безпеки нашого часу не можуть бути теоретично сконструйовані поза процесом глобалізації. Таке розуміння значення глобалізації в загальнотеоретичній юриспруденції та праві стає методологічним принципом. Тому під час вивчення держави й права необхідно надати важливе значення поглибленому дослідженню чергового етапу (ступеня) глобалізації, його ознак, а також впливу на формування державних боргів, які у свою чергу впливають на боргову безпеку держави.

¹⁰ Лебедев В.А. Финансовое право: учебник: в 2 т. М., 2000. Т. 2. 461 с.

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Valentin Fedorov,

*Ph.D., Associate Professor at the Department of General Theoretical Jurisprudence
National University "Odessa Academy of Law"*