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## The development of the “capital” term

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**Abstract.** *This article describes the evolution of the “Capital” term, showing different meanings in each period of time. More than that, the meaning of this term is described from the point of view of different scientists in the different stages of the world economic development.*

**Keywords:** *capital, Marx, current assets, current liabilities, working capital, capital management, turnover of goods into cash.*

## Развитие термина “капитал”

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**Аннотация.** *Данная статья описывает эволюцию развития термина “Капитал” и описывает различные трактовки данного термина в разрезе времени. Кроме того, в ней также описана трактовка данного понятия различными школами ученых в различные периоды развития мировой экономики.*

**Ключевые слова:** *капитал, Маркс, оборотные активы, краткосрочные обязательства, оборотный капитал, управление капиталом, превращение товаров в деньги.*

There are different interpretations and meanings of the term "capital" in Russian and foreign scientific literature. There are two main senses: 1. The first one is more widely used among the accountants - it represents capital as an interest of the owners of the company, like it takes the form of share capital, share premium and retained earnings in the balance sheet. So the amount of capital is simply the difference between the organization's asset value and other debt. 2. The second one is more commonly used among the economists, the term “capital” stands for the tangible assets of an enterprise like fixed assets, inventory, etc.

There are many interpretations of the concept of "capital" in the economic literature. The theory of capital has a long history, and one of the A. Smith description of capital is that it is an accumulated number of goods or money. But D. Ricardo used the term capital in the description of material stock or means of production. His opinion was that stick and stone in the hands of primitive man were the same element of capital as machines and factories. K. Marx's opinion was that capital is more about social category. His argument was that capital is a self-increasing value that gives rise to the surplus value. Moreover, he considered only the employees work as the surplus value creators. Therefore, Marx believed that capital is a definite relationship between various sectors of society, especially between employees and capitalists. More than that it cannot but be mentioned among the interpretations there is so-called theory of abstinence. The English economist Nassau William Senior (1790-1864) was one of its founders. In his opinion, capital is the capitalist “victim”, who turns the major part of wealth in capital instead of full hedonism usage of it.

According to the American economist Irving Fisher (1867-1947), capital is the catalyst that transforms the services flow into cash flow. That is the reason why capital size should be determined in terms of earned

revenue from it. In economics the most common concept is that one the proposed by Fisher.

Representatives of all major schools and areas of economic science showed the desire to explain the essence and significance of capital. The evidence for this is the name of many works like “Capital” by K. Marx, “Capital and Profit” by E. Bem Bawerk, “The Nature of Capital and Profit” by I. Fisher, “Cost and Capital” by J. Hicks.

Capital Theory is younger than economic theory. Even in the primitive society the rudiments of economic knowledge have already been discovered. The concept of "capital" appeared only at the end of the XVII century. J. Hicks divided economists according to their relation to the theory of capital into two groups:

- British political economy, the Austrian school - "supporters of the theory of the foundation" ("Fundists"), which defined capital as monetary value;
- representatives of the theory of "materialists" A. Marshall and A. Pigou - supporters of the interpretation of capital as a «set of objects with a certain common feature».

A. Marshall and A. Pigou approach is less popular and actually a bit old one. The concept of "physical capital" reflects the understanding of this concept. From my point of view the first approach reflects the nature of the capital much better. It can also be represented as the interpretation of capital within the framework of the concept of flow, while “materialists” consider capital only in the form of stocks like inventories [1]. The real complexity of the content of this category is reflected by different interpretations. More than that, different approaches to the definition of the essence of working capital cause different management styles. In this regard, I cannot but say that foreign financial management instead of inventing different terms they use accounting ones. While the domestic economy and finance vocabulary is largely based on its own terminology.

Authors like L. Davydova, V. Ostapenko define the working capital as the sum of financial sources for the formation of working capital.

S. Puchkova defines working capital as current liabilities and current assets. Foreign literature usually uses the concept of "working capital", which implies the difference between current assets and short-term liabilities. However, from the position of a finance specialist, manage the "difference" is absurd, especially since it is constantly changing.

Thus, by working capital, we mean, on the one hand, a part of the liabilities side of the balance, containing the amount of advanced capital (own and borrowed) to create working capital (assets) of the organization, and, on the other hand, working capital itself. Advance capital - the amount required for the organization of the enterprise, is spent on the acquisition of production factors (economic resources): fixed assets; revolving funds; workforce.

According to the classical literature in the production process working capital is divided into four forms: monetary, commodity in the form of raw materials and stocks, and in the form of finished products. Circulating production assets and turnover funds are in constant motion and provide uninterrupted circulation of funds. In this case, there is a constant and regular change in the forms of the advanced value: with money it turns into commodity, then into production and again into commodity and money. The essence of working capital is determined by their economic role, the need to ensure the reproduction process, which includes both the production process and the circulation process. In contrast to fixed assets that are repeatedly involved in the production process, working capital operates only in one production cycle and, regardless of the method of production consumption, they completely transfer their value to the finished product. William Collins defines the essence of working capital as "... short-term current assets of the company, which quickly turn around during the production period."

A similar definition of working capital is given by the doctor of economic sciences, Professor Blank I.: these are assets that characterize "... the totality of the property values of an enterprise serving the current production-commercial (operational) activity and fully consumed during one production-commercial cycle"[2]. G. Schmalen describes the process more precisely, which is provided by working capital, in his opinion, "... circulating assets serve to create funds that are not designed for a specific period, but they directly provide

the process of processing and processing, selling products, and generating money resources and their spending. "

Cherkasov V. clarifies in the training manual on financial management, that "working capital is the company's current assets that are cash or can be turned into them within a year or a single production cycle."

Selezneva N, Ionova A. characterize working capital as follows: "... is the funds invested by the organization in current operations during each production cycle. Characteristic features of working capital are: full consumption during one production cycle and full transfer of its value to newly created products; being in constant circulation; change of its form from cash to commodity and from commodity to cash during one turnover, in the process of passing through three stages: purchasing, consumption and sales "[3].

Authors of the financial dictionary A., Blogadatin, L.Sh. Lozovsky, B. Raizberg give the following definition of working capital: "working capital is the most mobile part of the enterprise's capital, which, unlike fixed assets, is the most "flowing "and means, the part of the means of production that is entirely consumed during the production cycle ... Working capital is often called revolving fund, working capital enterprises[4].

Summing up, the differences in working capital and working capital can be defined as follows:

- working capital, according to the accepted accounting methodology, characterizes the assets of the enterprise, and capital - the sources of property;
- under capital, it is customary to understand the value that brings surplus value, and current assets transfer the value of working capital to the finished product;
- capital - production relations, which are presented in real or monetary form, which has a specific social character. Circulating funds serve the production process, ensure its continuity, not being a relationship;
- The theory of working capital involves the allocation of current assets, current debt and net working capital, as the difference between current assets and debt. The theory of working capital operates with the concepts of its own and equivalent working capital; - the theory of working capital considers the attraction of borrowed funds as a replenishment of the lack of funds that ensure the continuity of the production process; in the theory of working capital, the attraction of loans is not related to the production process.

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