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Habitus in relation to the stock market: national features

Abstract. The present study considers habitus as a matrix of symbolic competencies of the population which form a single system of social stereotypes in relation to the stock market. Different factors which influence forming of the habitus are determined in the paper. Some results of the author's researches characterizing the habitus in Russia are given in the paper. The author also makes a comparison of Russian and American attitude to the stock market.

Keywords: Stock Market, Habitus, Religious Tradition, Historical Tradition, Financial Literacy

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Габітус населення відносно фондового ринку: національні особливості

Анотація. У рамках заявленої теми габітус розглядається як матриця символічних компетенцій населення, що утворюють єдину систему соціальних стереотипів стосовно фондового ринку. Автором визначено вплив різних факторів на формування габітусу. Наводяться результати авторських досліджень, що характеризують габітус російського населення. Проведено порівняння ставлення російського й американського населення до фондового ринку.

Ключові слова: фондовий ринок; габітус; релігійна традиція; історична традиція; фінансова грамотність.

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Габитус населения в отношении фондового рынка: национальные особенности

Аннотация. В рамках заявленной темы габитус рассматривается как матрица символических компетенций населения, образующих единую систему социальных стереотипов по отношению к фондовому рынку. Автором определено влияние различных факторов на формирование габитуса. Приводятся результаты авторских исследований, характеризующих габитус российского населения. Проведено сравнение отношения российского и американского населения к фондовому рынку.

Ключевые слова: фондовый рынок; габитус; религиозная традиция; историческая традиция; финансовая грамотность.

1. Introduction. It is believed that there are two successful models of economic growth: Anglo-Saxon (dispersion of share capital) and German (the concentration of share capital in banks). The stock markets usually follow one of these models because both of these models have proved growth of national economics at a high level. In recent years, China's stock market, where the main shareholder of all companies is the state, has scored tremendous economic achievements. Though it contradicts the market economy principles, the China's economy is a fast growing one. For 25 years, about 10% of Chinese population has joined the stock market and according to the Shanghai Stock Exchange investors, shares of more than 1,000 companies have become available.

Russian stock market is showing very poor results, though it is oriented to China's stock market. In Russia, the primary stock market has not been well developed; shares of only 262 companies are available on the secondary market. Besides, the official number of individuals participating in the stock market is less than 1% of the population. In fact, the number is much less [1].

2. Problem statement. In recent times in Russia an inflow of funds into the economy through the stock market development should have been grown due to the European economic sanctions (primarily on issues concerning availability of foreign credits) according to the theory of rationality. Unfortunately, in reality everything is different. We think that this is due to the features of the existing habitus in Russia, which does not contribute to investment activities through the development of the stock market.

3. Analysis of the recent researches and publications. Scientific studies of the problem have both economic and sociological trends. Among foreign researches we should draw attention to the papers of R. Shiller (2013, 2014) [2-3] (behavioural finance); Benartzi, Shlomo, and Richard H. Thaler

(2007, 2013) [4-5] (behavioural economics); Choi, James J., David Laibson, and Brigitte C. Madrian [6]; Madrian, Brigitte C., and Dennis F. Shea (2005) [7] (reasons of investment); O. Zagurskiy (2014) [8] (evolutionary approaches to market research) and O. Soskin (2013) [9] (role of the state regulation in the modern economic model formation).

We should also mention researches of Russian economists who study various aspects of the Russian stock market. For example, Ya. M. Mirkin (2002) [10] analyzes an economic component of the stock market; B. B. Rubtsov (2007) [11] compares aspects of the stock market growth in developed and developing countries.

European economic sociology also pays great attention to the stock market. Modern sociology uses special approaches studying the formation and development of the habitus in relation to the Stock Market. The approaches are based on paradigmatic teachings of Karl Marx (1867), Max Weber (1905), Joseph Schumpeter (1919), and Emile Durkheim (1895).

M. Abolafiya (1998) [12], P. DiMaggio (1994) [13], Mr. Huberman (2001) [14], B. Berber (2008) [15] study the impact of cultural skills, habits and traditions on formation of the habitus. Pierre Bourdieu (2007) [16], and N. Fligstein (2013) [17] consider the stock market as an organizational area.

Among Russian sociologists, we should pay attention to the papers by V. Radaev (2008) [18] on theoretical justification of the market. He studies the influence of cultural skills, habits, historical and religious traditions on the development of the Russian stock market.

4. Information base of the research. The author used both own research conducted over the past ten years (the analysis of statistical data, surveys, focus groups, expert interviews, public opinion polls etc.) and some other researches' relevant results. To make a market research comparison, the author studied topic materials from the collection of

the US Congress Library¹, such as a report on behavioural patterns and pitfalls of U.S. investors, 2010; a report on financial literacy among retail investors in the United States, 2011; an investor research report, 2012; and an annotated bibliography on the behavioural characteristics of the US investors.

5. The purpose of the paper is to study Russian and American population attitude to the stock market.

6. Results. The Russian habitus is that the most part of the population thinks of the stock market as a speculative one, which does not attract investment funds into the real economy.

The American habitus is that the most part of the population identifies the stock market as an opportunity of share participation in the share capital of companies based on the long-term investment to the US economy.

To confirm the results, the author will try to analyze the main factors that have the greatest impact on the habitus formation.

Historical tradition

Russian primary and secondary stock markets had been successfully developing before the First World War. Development of the primary market was due to the rapid industrial growth and mass construction of railways. However, this was not possible without attracting the necessary financial resources through auctioning. As for the secondary market, the stock exchange department of St. Petersburg held the 5th place in the world exchange turnover of securities in 1914. It conceded only stock exchanges in London, Paris, New York and Rome.

However, a small amount of the population participated in stock investments. The reasons were as following:

- in the European part of Russia the annual wage of the industrial workers ranged from 140 to 380 rubles as well as the annual wage of the farm workers ranged from 116 to 216 rubles [19]. But the nominal value of one share according to the tradition of that time was less than 100 rubles that made it unaffordable for the majority.
- there was negative attitude to the stock market according to the definition given to the Russian stock market development in the Encyclopaedia issued in 1913. It stated that a stock market was considered as a very risky institution which functioning should be treated with great attention in order to protect a state credit from deliberate attacks on fund rates. At the same time, it should carefully protect inexperienced shareholders from stock exchange «sharks» by blocking the access to the forbidden «temple of the golden calf». Here we deal with a usual psychological behaviour where to take care of citizens, inexperienced in social and political life, is traditional. Such citizens are extremely unrefined; it is a situation when «easy money» is centralized in the capital, and a lot of people lust for gain during the periods of excitement [20].

That is why the prohibition of the Russian stock market in December 1917 (two months after the Bolsheviks came to power) did not cause mass discontent among the citizens. From 1917 to 1990 Russia did not need stock markets. Money and material resources were distributed by the government. There were no securities except the government bonds.

Thus, the Russian historical tradition does not promote formation of a positive attitude to the stock market.

In 1776, there were about twenty of joint stock companies (corporations) in the United States of America. A small number is due to several reasons:

- there were a lot of individual entrepreneurs in the agricultural sector because of insufficient development of industrial production;
- a corporate form of business entity was not popular because it was associated with the British colonialist aggression.

The beginning of the XIX century in the United States was marked by rapid economic growth. The rapid industrial deve-

lopment led to the qualitative and quantitative growth in banking, transport and construction sectors. A partnership as a form of business was an imperfect mechanism for such projects. Therefore, the flexibility of a corporate form was in demand [21]. The fact is that it provided the issue of shares, and the shareholders were responsible within the value of these shares whereas the partners were responsible for all their assets according to the obligations. In addition, free disposal of shares was also attractive for shareholders. The author believes that it is the «corporatization» of the US economy which gave an opportunity to every American to invest in companies.

However, we should not idealize American corporations. This tradition does not exclude unsuccessful projects, fraudulent scheme to collect money from the population with further imaginary bankruptcy or simple disappearance of the organizers. Nowadays, corporate scandals reveal many of the problems in the American business. There is no doubt that, due to the development and popularization of the organizational and legal form of such projects, the country created a massive community of shareholders, and, as a result, the majority of the population has a positive attitude to the stock market.

Religious tradition

In Russia, the Orthodox Church has been influencing public investment activity. It did not support the stock market development, and exchange trading was considered sinful. In Orthodoxy, only labour can be a source of wealth.

Nowadays the Orthodoxy criticizes the existing stock market, especially the secondary one because it is characterized with stockjobbing and getting profit from the growth of the market value of securities and of derivative transactions. The Russian Orthodox Church does not approve this kind of activity, which has a certain impact on the habitus formation. We should also take into account the fact that today the Muslim population is 1/7 of the total Russian population. The Islamic religion has an extremely negative attitude to the stock markets, which forms a negative attitude to this institution for a considerable part of the Russian population.

Historically, the majority of the US population professed Protestantism during the birth of the national stock market. Max Weber (1905) in «The Protestant Ethic and the Spirit of Capitalism» pays attention to the best results of Protestants in business and financial sectors. He notes that the Protestant religion promoted the development of thrift, prudence, initiative and ability to take risks. Protestants formed a class of entrepreneurs and investors [22]. The doctrine of Protestantism led to the formation of the spirit of enterprise and thrift in Holland, England, and later in the United States. Thus, the most common religion of the United States supports the development of stock markets, which affects the formation of the positive habitus.

Impact of privatization of 1990s

In the beginning of 1990s, all the citizens in Russia were given privatization checks (vouchers). Theoretically, it gave an opportunity to become a shareholder of an enterprise through participation in auctions. Besides, the employees of many enterprises automatically received shares of those companies. However, state authorities did not explain properly the meaning of the privatization process to the population. As a result, the majority sold their vouchers for 3-10 thousand rubles and invested in the securities of «financial pyramids» because of a lack of money. Unfair heads of enterprises tried management buyouts, often detaining wages to workers and employees. They offered their employees to sell them the shares received in the privatization process but at a low price. Purchasing of shares through the funds earmarked for the payment of salaries. The negative investment experience gained by the majority of the Russian population in the process of privatization is one of the contemporary aspects that had formed a negative component of the habitus related to the stock market. The main factor, which might change people's attitude to the privatization process, is time. A gradual generational change may influence positively on the Russian citizens' attitude to the property and shares [23].

¹ Annotated bibliography on the behavioural characteristics of the US investors. A Report Prepared by the Federal Research Division, Library of Congress under an Interagency Agreement with the Securities and Exchange Commission Federal Research Division Library of Congress USA (<http://www.loc.gov/rr/trd>)

In the US, the process of privatization was more or less successful unlike in Russia. Although a certain negative impact of unsuccessful projects or manipulation of individual corporations on the population cannot be excluded, it did not develop a negative attitude of Americans to the whole institution of the stock market.

Impact of the current state of the stock market

The modern Russian stock market has emerged and developed as a secondary one. In the past 10 years, there have been no more than 150 of initial public offerings of Russian companies. While about 60 offerings have been made on Russian exchanges, the rest took place on foreign exchanges, such as LSE (London), Deutsche Borse, NASDAQ, NYSE, HKEX and others. Sberbank, Rosneft, VTB Bank² are the largest and known joint stock companies in Russia.

Dividend return of the Russian issuers has significantly lower interest for the bank deposits. It makes investing for long periods of time impractical. The average PE ratio is at least 20 and interest on deposits make up 10-13% per annum. In 2014, the interest made up to 20% per annum, when the Bank of Russia raised a refinancing rate. In addition, the state insures deposits in the part of 1 million 400 thousand rubles in the majority of Russian banks, whereas the stock market does not have these elements to protect investment resources.

Nowadays, private investors draw attention to the funds that sellers of securities receive at the secondary market. These funds do not come to the development of the issuers, but simply become a circulate capital of the participants of stock trading. It confirms the fact that the Russian stock market is speculative rather than investment one.

An American investment tradition involves purchasing securities for a long period. In the United States bank deposits bring a very low percentage to investors. Moreover, the current legislation encourages the population to participate in the private pension system, which also requires

shares. The authorized capital stock, as a rule, is spent on the further development of the company. In the United States, there has been a public offering of shares of not fewer than 20 companies on average per month over the past 10 years.

It influences the formation of opinions about the stock market as a necessary institution that promotes inflow of funds into the economy of the country.

Financial literacy

Russian Coordination Committee on Financial Literacy defines financial literacy as knowledge of financial institutions and products, the ability of managing them in case of need and understanding the consequences.

A majority of the Russian population do not have sufficient knowledge to understand even basic financial products and the risks associated with the products. Thus, financial literacy surveys conducted in Russia show that about 65% believe that they have a low level of financial literacy. The score of financial literacy among university students was 40 out of 100. The score of understanding stock markets was not more than 23 out of 100 [24].

According to the President's Advisory Council on Financial Literacy in the USA, financial literacy is defined as ability to effectively use the management of knowledge and skills of financial resources to achieve financial soundness³.

However, the results of studies conducted in the USA show that there are critical problems of understanding the financial literacy. The American researchers believe that the population lacks the financial knowledge. For example, look at the results of a survey held among retail investors in the USA on their understanding of the certain concepts related to investment activities.

The results of the survey undertaken in 2009 are presented in the table 1 and have not lost their relevance at present time.

Tab. 1: Results of a survey held among retail investors in the USA on their understanding of the certain concepts related to investment activities

The studied concepts	Answers (в %)		
	Correct	Incorrect	I don't know
Understanding inflation	64	21	13
Forming the bond price	21	44	34
Compounded interests	65	21	13
Mortgage lending	70	16	12
Risks of investing into securities	52	13	34

Source: Compiled by the author based on the data of the survey about financial literacy among retail investors in the United States in 2009

buying securities for long periods. According to the most popular pension plan 401 (k), employees can contribute a part of the salary with a deferred payment of income tax into the employer's investment management fund, which invests these funds in various securities and guaranteed investment contracts with fixed income.

At the same time, the employees have restrictions on early implementation of such assets. If a person withdraws a sum of money from the account before the retirement age, then he is imposed fines.

Thus, these kinds of investments in securities work as long-term ones, and the majority of Americans consider the stock market as a long-term investment.

In addition, a huge impact on this attitude has a significant number of IPOs (Initial Public Offerings), when the shareholders understand that they increase the authorized capital stock of the company by buying the

In addition, as shown in the report, the US retail investors often did not assess the impact of commission fees of mutual funds to their profits. Besides, they are often unaware of the existence of index funds that minimize such fees.

Many investors believe that SEC automatically protect them from the loss of investment. That is why they are easily drawn into various fraudulent schemes.

7. Conclusion. Thus, four of the above-mentioned factors (historical tradition, religious tradition, Russian privatization, the modern state of the market) are diametrically opposed in Russia and the United States, which indirectly confirms the habitus of the populations. Poor financial literacy of the population can be considered as typical for the population both in Russia and the United States.

However, low financial literacy is not critical when forming the habitus with regard to the stock market. People may not understand some of the features of the financial and stock markets functioning and fail making investments. Their attitude to the stock market remains unchanged.

² The VTB bank shares can be called the most unfortunate among the above three examples. A VTB share cost 0.136 rubles in 2007. For the first two years, the share price fell by more than 80%. On 30 December 2015, the share price was about 0,008 rubles. Since 2007, the market price of the shares has not reached the offering price.

³ Source of information: http://www.treasury.gov/offices/domestic-finance/financial-institution/fin-education/docs/PACFL_ANNUAL_REPORT_I-16-09.pdf

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