

What is economy?

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Abstract

In conventional economic theories “*the general meaning of economy*” is presented from conceptually different perspectives that sometimes do not converge. Besides, advancements in information and telecommunication technologies and the fast marching process of globalization have impacted on all the spheres of human activity, demanding updates in almost all conventional theories. In this article I suggest a new approach towards the study and theoretic analysis of economy, which tries to respond to the both above mentioned challenges; i.e. elaboration of all-encompassing *single concept of economy*, supplementing it with *the modern realities*. To hit this target, two axiomatic assumptions were put forward initially: economy should be perceived as *a natural phenomenon*, all the theoretic study must meet *common sense* and cover examples from *everyday life experience*. Based on that, the concepts of *economy* and *economic activity* have been thoroughly discussed, defined and tested, forming the elementary base for the suggested new theoretic approach.

Keywords: Economy, phenomenon of economy, economic activity, economic agent, contemporary logic of economy

Introduction

Today, the word “economy” can be heard several times a week, a day and even an hour. The economy of a region, country and the whole world is discussed very intensively by almost everyone and almost everywhere. People look at various economic indicators to make decisions, very important decisions for future, analyze their present life and even regret for the past lost opportunities. Hundreds of thousands (maybe millions) of books and articles are being published each year that are mainly devoted to the elucidation of economic phenomena, offering problem solutions from the most traditional to the most extraordinary.

Economy is playing a huge role in drawing the political distribution of wealth and power across different regions. It is obvious that a properly organized and developed economy will attract more investments, thus generating more wealth. It is also obvious that well-developed economy creates flows of enthusiastic immigrants and weak economy, at the same time, creates flows of disappointed emigrants.

Economic well-being makes people happier, though it is not the key factor for happiness. Happy people become kinder, smarter and more creative, which leads to higher ethical and cultural traditions and standards. Economic well-being is also the necessary (and still not the sufficient) condition for progress and development in all the spheres, starting from business up to sports and arts.

Despite the importance and power of economy, a conceptual problem is present in the study of general phenomenon of economy: there is no single perception and definition for the term “economy”. Though, the economic theory is full of formal definitions and laws, one can hardly find an accepted definition for economy. Neither is there a consensus among many economists on the exact perception of the concept.

The general concept of economy

The challenges

In many famous textbooks on economics the definition for economy is omitted. There may be a plenitude of formal definitions for economic categories, economic agents, economic processes and other economic stuff, and still no single definition for economy. Professors explain the absence of the definition, putting forward the argument that economy cannot be defined, because of uncertainty and fluctuating nature of functional roles of economic agents. That is, any producer is at the same time a consumer. And when one buys some stock, s/he simultaneously becomes an investor. So, here the problem goes to multifunctional property of economic agents.

In the most famous dictionary-encyclopedia publications *economy* is defined in conceptually different meanings. Though all of them include production, trade and consumption of goods and services, in one case *economy* is presented as a condition or state, in other cases it is presented as a system, as a complex of human actions or as a whole.

Trying to find out the most suitable definition for *economy*, a little bit deeper theoretical study is necessary to be conducted. Since economy is the inseparable part of the modern society and human life, the standpoint here for the whole further theoretical discussion is based on the following **two main axiomatic principles**:

1. Economy should be perceived as *a natural phenomenon*¹.
2. All the definitions, assumptions and conclusions must meet *common sense* and cover examples from *everyday life experience*.

The scrutiny

Following the above mentioned two main principles, it is straightforward that the representation of economy as a state or condition is not proper, since state and condition are static properties of particular cases. And economy is dynamic, always “being in action”, with its internal processes, flows, connections and relationships that emerge, develop, change and disappear over time. In the same manner it will not be right to define economy just as a complex of human actions, making the phenomenon too anthropocentric, subjective and “killing its self”. Though, it is obvious that economy can only be sustained by the presence of people, the anthropocentric view will turn all the economic processes into human intentions, so that the *own-internal* and *self-driven* economic processes, such as market self-regulation, prices self-equilibration, economic cycles, etc. will not be explainable at all. Similarly, the role of *external factors* will be underestimated².

In order to keep the self-determination and dynamism of the general phenomenon of economy, the usage of *complex of human actions*, *condition* or *state*, as definitive terms for economy, are being refused. The two left definitive concepts to be decided upon are *system* and *whole*. Often in philosophic literature system and whole are being used interchangeably, though a conceptual difference is present. That is; system is a kind of organized whole, where all its elements obey some systematizing common rules or laws, without any exceptions. However, economy is not acting in a single predefined path, often causing

¹Though this might sound a little bit extraordinary, nevertheless, economy (or economic relationships like production, consumption, trade, goods exchange, taxes and so on) has in some form been present at all the stages of human history. Hence, nothing is hindering from viewing economy as a natural (social-psychological) phenomenon that accompanies mankind and is the inseparable part of society.

²For example, climate change or natural disasters directly affect economy.

unexpected “surprises”. For example, looking at the current top 20 companies, no one can accurately predict who will survive and stay in the market in next ten years.

Similarly, no one could have predicted the real pace and scope of the recent global financial economic crisis. The economic prosperity and failure of some akin internet companies are absolutely unexplainable and do not obey any single economic rule or law.

Nevertheless, due to advancements in information, communication and transportation technologies (starting from the ancient times) it can be easily tracked that over a long period of time (centuries) economy of any region, country and the whole world is becoming more and more systematized and coherent. So, in order to keep the generality and not to artificially narrow the unpredictability and inexplicability of some economic events and processes, it is more correct to describe economy as a whole, admitting *the consistent tendency of systematization and increase in coherence*.

Summarizing all the above mentioned, the following conclusive statements come forth:

- **Though economy can exist only at presence of people sustaining it, it is not fully dependent on the human factor and has its native, internal patterns, mechanisms and processes, affected by external factors either.**
- **Economy is a dynamic natural phenomenon, where economic agents are always in motion, with constantly changing and reshaping flows, connections and relationships among them.**
- **The general phenomenon of economy is best described as “a whole of economic elements”.**
- **Economy always tends to a higher level of systematization and coherence over time.**

A proper definition should conform to the four above mentioned conclusive statements. However, in the second conclusive statement a concept is being used – *economic agent*, which needs to be clarified. Who or what can be called an economic agent?

Here, under the meaning of *economic agent*³ one can understand *any entity, engaged in any type of economic activity*. And comes immediately the next rather ambiguous question: **what is economic activity?**

SPONTANEOUS ANSWER: **“Any profit (income) generating activity”.**

This would probably be the most common and general answer to the question. This answer is obviously wrong, because some economic activities do not result in profit. For example, many state support measures, such as subsidies, subventions or dotations, do not pursue any profit or income. But still these activities cannot be called else, but economic, contradicting with the definition.

ANSWER REVISION #1: **“Any gain or benefit generating activity”.**

Though this form of the answer is much more acceptable, but it still contains many weaknesses. Yes, it is true; this kind of definition encompasses the above mentioned example with state support measures, because the state will benefit from the economic rise of specific businesses (whom the support program was targeted at). But now some other problems arise. For example, when you get presents on your birthday, your activity is generating benefit, though it is obviously not an economic activity. Or, when you suddenly and unexpectedly win a prize in some promotional drawing, your activity is again generating some gain and is still non-economic. This is because in both cases, you do not do anything special to obtain the gain or benefit. In other words, you do not pay for your gain: the gain or benefit “came to you” spontaneously.

ANSWER REVISION #2: **“A transfer of own means (resources, money, free time, skills, goods, etc.), from one entity (person) to another, for obtaining some gain-benefit (profit, income, goods, satisfaction of needs, fair redistribution of wealth⁴, welfare, etc.)”.**

It's easy to notice that the above mentioned definition of *economic activity* sounds rather professional and “scientific”. By the way, accidentally, a strange new term—“*gain-benefit*”, has been coined. Its first

³Economic agent is a widely used term in economic literature with a wide range of different contextual meanings. In this article, economic agent has its ad hoc specific meaning and definition, and must not be confused with “other” economic agents, mentioned in other books or articles.

⁴Referring the mentioned example of fair redistribution of wealth (in parentheses); observing state economic policy and tax system of any country (which is actually an economic activity of the state), it is easily found that the state is spending its own resources (material resources, information, human resources, etc.) to have a gain-benefit. This gain-benefit is materialized in fair income distribution among citizens, leading to sustainable economic growth and social prosperity.

part, gain, gives the term more of the meaning of *winning* and *profit*. The second part, benefit, gives the term more of the meanings of *utility* and *usefulness*.

It seems that the very proper definition for *economic activity* has finally been found. Nevertheless, there is an example of activity that passes through the last revised definition, and is clearly a non-economic activity: it's when you just take care of someone (your child, parent, spouse, friend, relative, etc.). Surely you are giving away your free time to another person and getting in remuneration for it a satisfaction, brought by the fact, that you have been able to be useful to that special person. And it is just one example. Many other actions (mostly motivated by emotional factors) have the elements of "payment" and "gain-benefit", but still cannot be called economic. So, another revision and clarifying concept that will provide a distinction between economic and emotional (or any other) motives is needed.

ANSWER REVISION #3: **"A conscious, considered and counted (in monetary terms) transfer of own means (resources, money, free time, skills, goods, etc.), from one entity (person) to another, for obtaining some gain-benefit (profit, income, goods, satisfaction of needs, fair redistribution of wealth, welfare, etc.)"**.

Congratulations! A truly proper definition of economic activity has been reached. Someone, very skeptical, can probably say that the previous example with baby care again passes through this newly revised definition. When you play with your child, you do it consciously, knowing that you will have a gain from it—a heartfelt laughter and positive emotions. But, is it a fully considered and counted action that can be expressed in monetary terms? It's certainly not. The action mentioned in the example of baby care is a disinterested activity.

And of course, you can consciously consider how much time you are spending on the baby care, and how much you will benefit from it, all that counted in monetary terms. But that is not the same action described in the previous example, since in this case you are already not emotionally motivated. It will now become a true economic activity; the cared baby will be turned into an asset and the spent time into an investment. So, the definition **has not failed** the tests of common sense and everyday life experience.

The findings

Having the final form of the definition for economic activity, the specific definition for *economic agent* can be derived straightforwardly. We can call *economic agent any entity or person, engaged in conscious, considered and counted (in monetary terms) transfer of own means (resources, money, free time, skills, goods, etc.) to another entity or person for obtaining some gain-benefit (profit, income, goods, satisfaction of needs, fair redistribution of wealth, welfare, etc.)*.

Thoroughly scrutinizing the last definition and passing to the practical implementation of it, it can be stated that, depending on the specific sphere of activity, economic agents may be consumers, manufacturers, investors, debtors, resource owners, tax payers, state structures and so on. It is absolutely not necessary for economic agents to be identified with people, since

- economic agents may also appear as corporate bodies (firm or corporation), nonprofit organizations, state bodies, etc;
- one entity (person) can at the same time act as several economic agents (e.g. any manufacturer or investor is at the same time a consumer).

Taking into consideration the two above mentioned points, economic agent should not be identified with a person (or any other entity) and should be regarded separately, depending on her/his/its functional activity. For example, an investor, consumer and manufacturer will be considered as three distinct economic agents, even though they might be embodied in one person. For the same reason, it will be wrong, if population size is taken as a criterion for comparing different regions on the number of economic agents. A less populated region may have more economic agents, if people are more economically active⁵. The only thing we can be sure about is the fact that the number of economic agents cannot be less than the population size, since every person is at least a consumer (at least from the state's point of view). So the least possible number of economic agents (if only consumers are present) roughly equals to the population size.

⁵By the way, it might be an interesting indicator for comparing economic potentials in different countries.

Having clarified many ambiguous concepts, terms and definitions, it is the very time to pass to the last stop of the current discussions and formally answer the main question, which caused so much confusion and fuss: what is economy?

Economy is a dynamic whole, consisting of economic agents, together with flows, connections and relationships among them that are changing over time, tending to a higher degree of systematization and coherence, induced by external, as well as native-internal events, processes and laws.

Common Sense Questions

CSQ #1: Why this definition for economy was not just given at the beginning, escaping from those long discussions?

The main mission of this discussion is to perceive the contemporary logic of economy in a new understanding. This does not mean that it must necessarily contradict with all the classical theories, easily found in the textbooks. It is just a theory from a different point of view, where common sense and everyday life experience play a crucial role. So, it was mandatory to start from the very elementary beginning of this theory and to logically reach the target – a new definition for economy.

CSQ #2: What is the reason for such a high degree of detailed elaboration?

Any worthy theory needs its specific support points—very well defined elementary concepts. The better the elementary concepts are defined and presented, the worthier is the theory. That's the reason for such thoroughness in all the discussions. Although much time and energy was spent, however, the three main definitions for *economic activity*, *economic agent* and *economy* are very accurate and precisely match each other. The latter fact is very important, because any good theory requires its components (concepts, laws, definitions, etc.) to be fully compatible with each other.

CSQ #3: How does the last unusual definition for economy show itself in everyday life?

Though the usage of almost every word in the definition for economy has been thoroughly discussed, analyzed and confirmed by common sense and everyday life experience, it still sounds rather extraordinarily. Especially, it is easily noticed that the “usual economic words” like consumption, production, trade, money, finance, business, etc. are not present. Nevertheless, all the latter concepts are being covered by the definition, and it fully corresponds to everyday life experience. Let's consider an interesting example of income tax. Why income tax? Because tax system is the inseparable part of contemporary economy (and our everyday life), but most often economic representation of tax system is very difficult to show, using the usual definitions for economy, where economy is described just as a system of production, consumption and finance. Now, you will see how easily tax system is being encompassed and economically represented by the current extraordinary definition. So, what does happen when we pay our income tax?

Here we have two types of active economic agents—we (consumers) and the state or government (producer). As *economic agents*, we and the state have a *connection* (such as tax payer number, social security number, etc. depending on the country specifications). When we make a tax payment we enter into an *economic relationship* and a part of our money *flows* to the state (producer of public goods), which in return provide us with public goods (security, healthcare, welfare, infrastructures, and so on) that *flow* from the state to us (consumers of public goods). As the time goes by, tax calculation and collection, as well as assortment and allotment of public goods are being revised and improved, which leads to *more systematized and coherent economic relationships* between consumers (citizens) and the producer (the state) of public goods. The revision and improvement may be demanded by the spontaneous transformations in the structure of the economy (*native-internal economic process*), or by any other non-economic strategic reason (*external events*). That's it, the tax payment passed through all the parts of the newly baked definition.

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The conclusion

A new perspective for the study of modern economy was offered. Based on that, a new conceptual framework was put forward with its elementary concepts defined. Based on the latter ones, two main definitions have been formulated and tested. And finally, the main question from the title was answered.

So it's obvious that the last CSQ that may be raised here is “*why*”. ***Why or what for do people need theoretic knowledge of modern economy?***

As mentioned in the beginning, economy plays a crucial role in people's life. And it's obvious that the better you understand economy, the better you are, the better you can make your decisions, the better you will respond to external events and processes. In short, the 21st century, with all its technological turbulence, hyper-busy people and the absolute lack of free time, just force everyone to encounter with different types of current events and situations, where economic decisions have to be made urgently. Though it may seem that all the above discussions about economic agents and economic activity were purely theoretical, without any implications of reality, it turns out that very often, unconsciously, we do act as economic agents and we do engage ourselves in economic activity. These happen almost every day when we go to work, to shop, to IT specialist, to restaurant, to cinema, to sport club, etc. Hence, the better we can distinguish between economic and non-economic activities, the more efficient we are.

From the theoretic point of view, this long road of analytical discussions and “strange” definition formulations were necessary for showing a very important fact: **economy is a rather complicated, multidimensional and “sensitive” phenomenon**. From the proposed definition for economy, it is clearly visible that a slight change in the behavior, connectivity and relationships of economic agents, a little move in native-internal processes and an imperceptible external event may lead to a significant reshaping of the economic whole and force major social-economic changes.

Taking into consideration the latest rise of connectivity, universal trend of “*networkification*”, *sharp increase in the quality and quantity of information* and *the acceleration of global socio-economic changes*, it is more than clear that the behavior, connectivity and relationships of economic agents have changed and are currently changing not slightly, but **rather substantially**. This means that the latest global transformations in social relationships will be reflected in economic relationships, bringing global transformations in the latter. And that is the main reason for rethinking, reconsidering and updating the current economic theory with a new theoretical base⁶. That is why, here a new approach towards the study of economy is proposed, which includes more of sociology and philosophy, to meet the global trends.

For the end, I would like to mention that the study of concepts of *economy* and *economic activity* is the first step on the way of understanding **the contemporary logic of economy**. That only gives us the opportunity to discover the current traits of the elements of the general phenomenon of economy. So, the next stage of the study should be the identification of the structure and inner processes of economy, which demands to be discussed as a separate topic.

Do a favour to the author! Share with your opinion and discuss the article publicly, via the comment form below. Feel free to add some criticism.

⁶A new theoretical base means minimal borrowings from other theories. That is why, in this article citations and references have been avoided. No idea is borrowed from other authors or sources. Everything is based on own observations and universally acknowledged general concepts.