

Economy as a Subsystem of the Society

Elena Pilipenko¹

¹ Kurgan Division of the Institute of Economics, Ural Branch of the Russian Academy of Sciences, Kurgan, Russia

Correspondence: Dr. Elena Pilipenko, Kurgan Division of the Institute of Economics, Ural Branch of the Russian Academy of Sciences, Pichugina str., 15 – Kurgan, Russia

Received: June 30, 2015

Accepted: July 15, 2015

Online Published: August 5, 2015

doi:10.5430/jms.v6n3p38

URL: <http://dx.doi.org/10.5430/jms.v6n3p38>

Abstract

Current state of both the economic theory and the economic practice requires not “minor repairs”, but the entire re-thinking of the foundations of the existence of economics as one of the social sub-systems in the unified system *Nature-Society-Human*. It is clear that the way to surmount the ongoing economic collapse should be searched not in other “methods” of implementation of the principles that led to it, but in *finding new principles of the whole economic system*. As one of the possible variants of considering the problem we propose the author’s concept of the knowledge-based economy in accordance to which the scientific knowledge is viewed as the key resource of the formation of the social wealth, and the process of its production is considered to be an integrated technological chain consisting of the mental, information and material productions. This approach brings about the necessity of radical reconsideration of the whole system of economic categories and the models, methods, criteria and indicators based on this system. At the same time it provides us with simple guidelines in the complex theoretical disputes and in the practical activities aimed at forming the basics of the knowledge-based economy.

Keywords: society, economy, system, sub-system, knowledge-based economy, mental production

1. Introduction

It is generally agreed that today’s *economic crisis* is, in the first instance, a crisis of the way of *thinking, the culture and the ideology*. It is an understanding of the deadlock being a result of the activity of any economic system considering a person as a *means* and not as an *end*. The current crisis is the best foundation for the “revision” of all economic doctrines and postulates, and the perfect time for changing the vector of social and economic development in the whole world and in particular regions. The systemic character of the today’s crisis and its global influence have made obvious the *fundamental impossibility of overcoming it within the frames of existing market categories and concepts*. It is characteristic that more and more often in the market society Nobel prizes in economics have been awarded, in fact, for the denial of the essentials of the market economy:

- in 2002 David Kahneman received the Nobel Prize in economics for his studies that proved that people can be considered *irrational*; this disproves the keynote of the economic theory claiming that the human behavior is rational;

- in 2009 Elinor Ostrom received the Nobel Prize for her studies that proved the *effectiveness of the collective action*;

-the main candidate for receiving the Nobel Prize in economics in 2009 was the Austrian researcher Ernst Fehr, an expert in the so-called “behavioral economics” who described such phenomenon being absolutely absurd from the point of view of the market as *manifestations of altruism*.

Still, all these phenomena have been well-known for a long period of time, studied and described: the effectiveness of the collective action formed the foundation for the survival and the development of human communities for thousands years; the “irrationality” is an immanent characteristics of a personality of a human being as a subject; literature, primary, economic and other verbal and writer sources are full of examples of the human “irrationality”; the altruism has long been considered a necessary condition for the survival of both human and animal communities etc. then, what is the “breakthrough” deserving the Nobel prize?

Though, Nicolas Sarkozy, the President of France, surprised the public not less than the Nobel committee, when during the official opening of the 40th annual meeting of the World Economic Forum (WEF) in Davos he, in fact,

called for *the self-destruction of the capitalism* claiming that it is necessary to “...restructure the capitalism and develop the moral capitalism” (Note 1). Still, not long ago the “icons” and the “gurus” had explained us that the capitalism cannot be moral because “...the business is not interested in the fairness. The fairness is a special moral category. And the business is based on a mercenary interest...” – (Pilipenko E., Efimenkov V., Tatarkin A., Grinyk K., 2008, p.38). Friedrich von Hayek, the Nobel Prize winner and the cult figure for the liberals said: “Does the notion of the social justice have any sense in the economic system based on the free market? Strongly not” (Bogomolov O.T., 2005, p.14). The profit has always been a measure of the morality, and the “justice” was substituted by the “mercenary interest” – for ages this formed the basis for the whole system of the capitalist production.

It is hardly possible to imagine that the representatives of the Nobel committee are not familiar with the widely known facts of the economic and social life and history. It is also difficult to suppose that the capitalist N. Sarkozy does not know how the capitalism works.

The reason should be a different one. The “altruism”, the ‘collectivism as an *effective* economic form’, “morality” and other notions being absolutely contraindicative to the market are viewed, apparently, as some possible elements of a new economic construction free from the drawbacks of the existing one. It is evident that the way to surmount the current economic collapse should be searched not in the other “methods” of implementing the same principles that led to the crisis but in *finding new principles for the whole economic system*.

Thus, the modern state of the economic theory and the economic practice requires not a “minor repair” but a total re-thinking of the foundations (in the first instance, the philosophical ones) for the existence of the economy in the **integrated Nature-Society-Human system** as one of the social subsystems.

2. Society and Economy

The society is a self-regulating system where the expansion of life activities is viewed to be a final goal. The economy in this system is responsible for the creation and the expansion of an artificial human environment by means of transforming the biosphere material in consumer goods.

But the task of providing the members of the society with the consumer goods is not the only one, and is not even the most important. The development of the society and the expansion of its activities are reached through the development of the social and the mental components of a human personality that, finally, are revealed by the level of the cultural development. A person changes the conditions of living and develops the world of the material and the mental cultures created by people to the same extent to which a *personality is formed by the culture*. It is the culture that serves as a distinguishing feature of the human being and the society, because the existence of culture differentiates the society from any animal group.

But what is the culture and what is its role in the society as a system? According to the French philosopher Emmanuel Mounier, “the culture is not a sector, but it is the *main function of a human life*”. “The main objective of the culture is the complete fulfillment of all the human possibilities”. Ivan Ilyin says that the culture starts where *the moral content is in search of the correct and perfect form*. The spirituality and the culture are the two aspects of one and the same process: the spirituality is a fact a subjective perception of a person, and the culture is a reflection of the spirituality for the others. (Kiryanov D., 2008)

The spirituality is traditionally perceived as a way of a personal self-development. According to V. Solovyev the spirituality is a specific feature of a person and a manifestation of the generic essence of a person reflecting the “*theanthropic nature of every person*”. The spirituality as a personal feature is immanently providing for the human orientation on the supreme values. These supreme values determined by the researchers as the Truth, the Kindness and the Beauty are the *objective notions* uniting all people and *making the life meaningful*. The meaning here is reflected in *the form of the values*. A person can advance in his or her development only when finding a specific meaning. Comprehending the meaning of a human life is possible as a result of the spiritual development. Thus, the spiritual development of a person is essential for his or her formation a subject, a personality and even as a biological species.

Thus, ***the spirituality is the meaning of the human life***. Losing the meaning (Viktor Frankl) often results in the death of a particular individual, e.g. in the termination of his or her physical existence. M. Kagan defined the spirituality as a necessary *attribute of a human being as a subject*. According to him, the loss of spirituality means the loss of the subjective characteristics of the personality and its degeneration.

Thus, the aim and the destination of the society are to guarantee all of its members with the opportunities and conditions for the implementation *of the main human goal – the spiritual development*.

The goal of the economy in this context is to create the material conditions for all the members of the society that will allow the expanded reproduction of the culture and the spirituality. According to M.M. Golansky “the society develops its economic activity only because it is necessary for expanding other activities. The higher is the level of development of the economic activity, the more is the capacity of the human environment. Thus, the development of this type of activity is not a goal in itself, but a necessary condition for achieving the final goal of the society” (Golansky M., 1998, p.37)

It’s extremely important to remember about it today, when alongside with intriguing discussions about the “post-industrialism”, the “information society” and other things being of interest but having no relevant economic meaning, the principles of the most primitive “economic determinism” and its consequence being even more miserable, that is the “market fundamentalism”, are, in fact, being steadily implemented. The aspiration to transfer all the aspects of the social life to the market foundations and the efforts to pass all the cultural and spiritual phenomena through the filter of the “economic efficiency” are as unnatural as the attempts of “wagging the dog”. The society is, of course, interested in expanding the economic activities because it creates the additional “living capacity” and, thus, additional opportunities for expanding its activity being “beyond the economy”. It is also indisputable that the economic subsystem is characterized by a certain, and even quite high, level of autonomy from the society - in terms of defining the means and methods for implementing the goal of expanding the “living environment capacity” of the society. In the same time, it is necessary to realize that it is *the society as a whole* that sets goals for the *economy as a subsystem*.

In the society as an integrated system only *the society as a whole*, and not its singular agents can be a *producer of all goods* (including the material ones with the economy being responsible for their production).

Therefore, the economic *efficiency is a social, national economy efficiency*: “neither of the separate components of this activity (*economic* – the author’s note) independently, in isolation, is of no value for the society, and should be evaluated only as part of the whole on the basis of its participation in achieving the overall result. In other words, the product of any component of the economic activity should be viewed only as a particular effect on the total result. The social evaluation of this product beyond the whole (that is *the society* - the author’s note) loses its meaning”. (Golansky M., 1998, p.36)

That is why *reducing expenditures* on the maintenance of kindergartens, schools, universities, libraries, scientific and cultural institutions will *never become profitable* for the society as a system; it will be a long-term and a constantly growing loss, because objectively it results in reducing its life activities and in the failure to implement the main goal of the society, that is creating conditions for the development of the human culture and the spirituality. The same thing can be said about the closure of “unprofitable” productions and projects.

At the same time the large-scale and expensive projects for the development of the industrialization and the modernization of the whole economic sectors and regions carried out by the Soviet economy had not pursued the aims of profitability originally, but finally they expanded the “living capacity of the system” so much that for 20 years all of us (including the so-called “oligarchs” being the most “hard-working” layer of the society if we judge from the revenues) have been living, mainly, at the expense of this Soviet inheritance. For the modern “market” economy such efficiency is inaccessible.

Thus, the economy being *a part of the whole* - the society - moreover its *subordinate* part (because economic tasks, goals, methods and instruments of achieving the goals *are dictated by the society*) cannot aspire to any “superiority” over this “whole”. Therefore, there is no sense in discussing seriously any kind of “economic determinism”: the economy *should be subordinate* to the goals of the society being nothing more than an instrument created by the society for achieving its goals.

3. Human Being and Society

It is impossible to become a person beyond the society. In the philosophical thought, starting from Aristotle, the social nature was considered not even integral, but leading in the human structure. I. G. Fichte considered that the notion of a human being is not related to one human being, *because it cannot be conceived*, but to a whole mankind. L. Feuerbach also thought that the *isolated person* does not exist.

Everything the human being has and everything that differentiates him from animals result from the life in the society. In the society the human being adopts the human behavior; the society restrains animal instincts; in the society the human being adopts the language, the customs and the traditions; here the human being understands the acquired expertise of production and production relations. We know the cases when due to some unfortunate conditions small children were brought up by animals. And what were the results? They were not orthograde, they

could not speak, and the only sounds they could produce were animal sounds. Their minds were so primitive that they could be called so to some extent only.

That is why ***maintaining the society is the condition for maintaining an individual***. Therefore it is necessary to coordinate the actions of the individual with the goals of the society – so that not to destroy your own living environment with your egocentric actions.

The damage caused by the individual to the society is the damage he causes to himself.

The instrument of the harmonization of social and personal interests is the morality. The essence of the morality is that it's nothing else but ***the direct reflection of the social nature of a human being***, therefore ***the morality turns out to be a link between the individual and the human collective*** in any society at all stages of the historic development. The destruction of the morality results in the destruction of the society and the degradation of the personality.

It is easy to understand why N. Sarkozy started discussing the issue of the morality “Today people are outraged by the huge bonuses that the entrepreneurs, the heads of large concerns and the bankers paid to themselves. Sometimes they reached several million dollars. Now under the conditions of the crisis when the state allocated hundreds billion to these bankrupts, such bonuses look like a provocation. At better times people ignored them. Now the things are different. Many people in the USA and Europe think: “These people who have led the economy to the crisis paid huge amounts of money to themselves”. And the most striking fact is that they continued to do this even in 2008 during the crisis. And that's the whole story with the morality”. (Pushkov A., 2009).

But we suppose that N. Sarkozy hardly has a right to express indignation and wait for any changes, because exactly the individualism and the rationalism formed the basement for the whole building of the capitalism. Here we do not have (and we cannot have) any “*link between the individual and the human collective*”, the individual here is an “atom” of the society having no links and responsibilities. Denying it means denying the whole system of the capitalism. That is why the “moral capitalism” is an inaccessible thing: here you either choose “moral” or “capitalism”. (Note 2)

4. Conclusions

Thus, when forming the economic system it is necessary to take into account that:

1. The man being a triune subject (spirit, soul and body) is, in the first instance, *a spiritual being*. And this means that *the development of the spirituality is the meaning and the content of the human life*. Understanding the world and the role of him or herself in the world form the content of the human life;
2. the human being implements his or her goals (moral and material) in the society, through the society and for it;
3. the economy is one of the social subsystems with its main goal being the development of the artificial human environment within which it is only possible to implement the main goal of the person and the society (*the self-development*);
4. the society, and not its separate agents, is the producer of all goods;
5. the economic efficiency is a social and a national economy efficiency, and not the private one;
6. the morality is the main principle for the existence of the person in the society and the functioning of the economy as a social subsystem.

In practice this means that the economic activity should be regulated so that it should not result in the reduction of the life activities of the society (“living capacity of the system”), like in Russia, when as a result of the “liberalization” and the “privatization” the country was set back to the almost pre-war level of development; and not like in the global economy that, according to experts, is at risk of not less than 20% decrease in the GDP and several dozens years of the economic recession.

5. Proposals

How these principles can be practically implemented in the economic activity? We're not aspiring to propose a universal and final solution to the problem, but we would still like to offer our variant (fig.1) presenting the concept of the knowledge-based economy and founded on the following principal moments (Pilipenko E., Efimenkov V., Tatarin A., Grinyk K., 2008, p. 256):

- the integrated economic field;
- the priority set to the development of the mental production;

- the conformity of the management mechanism and the performance indicators to the specific features of a product of each type of production. This allows taking the sphere of the mental production away from the influence of the market that will contribute to increasing the efficiency of the development of each type of production in particular, and the system as a whole.

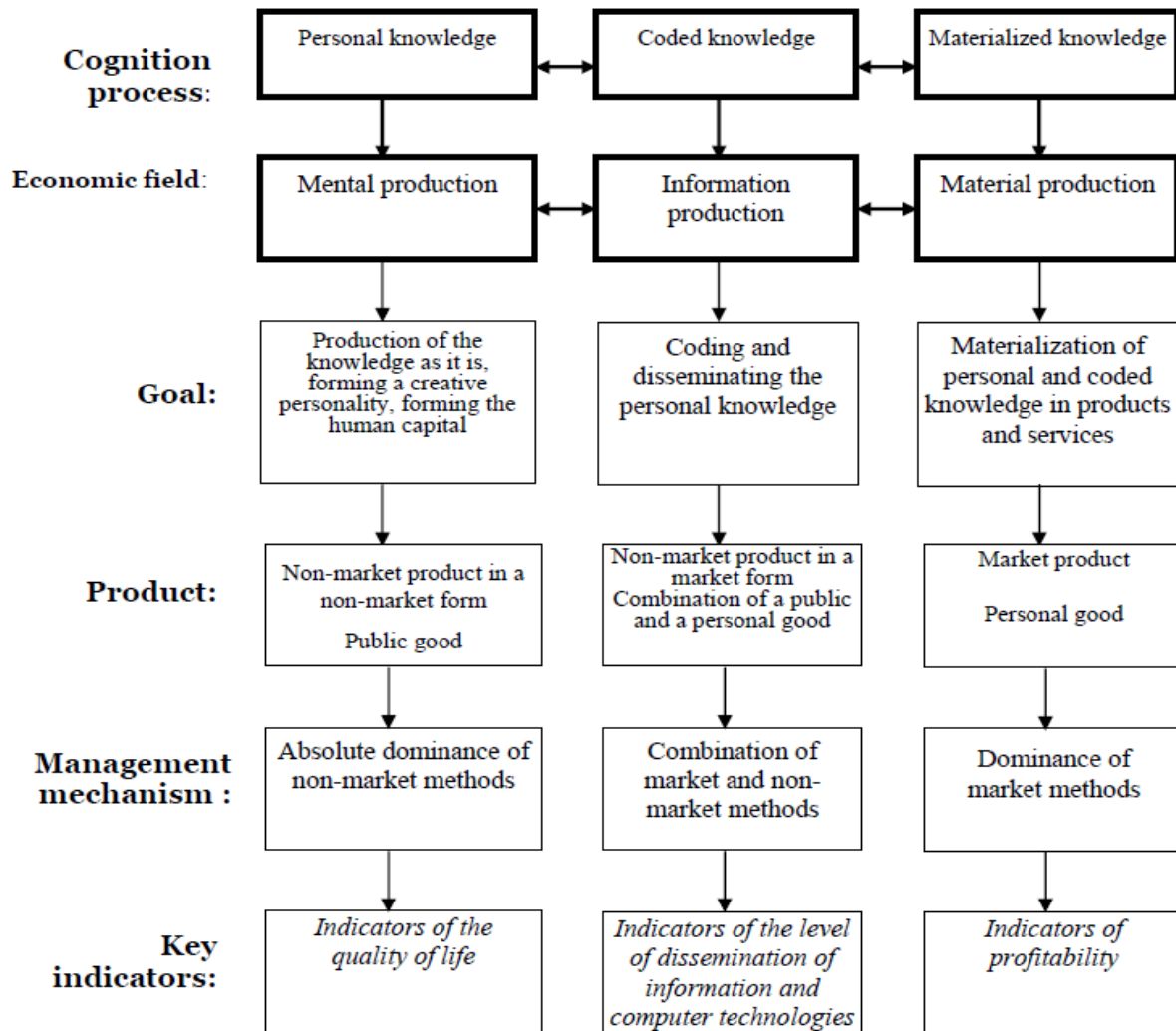


Figure 1. System of categories of the knowledge-based economy

The proposed model is a reflection of the objective reality – the cognition process. We suppose that we can claim at full certainty that the process of cognition *always* starts in the mind of a person, and only the person influences what form will have the results of his or her cognitive activities – a note, a book, a material object – or they will stay his or her thought, an idea that will never leave his or her mind. A principally important fact for understanding the mechanisms of functioning of the integrated economic field is that neither of the elements of this chain (mental – information- material production) can exist without the others; their existence and development are interdependent. The total of the moral, information and material productions forms an integrated technological chain of production and using the knowledge: the process of the knowledge production starts in the mental production from forming the ideal (personal) knowledge, continues in the information production in the form of coding and disseminating the knowledge and is finalized by its materialization in the material production.

On the one hand, both material and information production are presenting the ideal knowledge acquired in the mental production in other forms (coded and materialized respectively). In other words, the aim of the information and the material production is the processing of the knowledge acquired in the mental production. An interruption or a

non-efficient functioning of the mental production automatically result in the slowdown and the stoppage of the information and the material productions, because they lose both the subject and the instrument of labour.

On the other hand, even the personal knowledge being unique in terms of the possibilities of influencing the real life of a person and the society is lost for the society and the social progress without being materialized. In fact that materialization of the knowledge is one of the most important conditions for their existence.

Still, the material production is always secondary to the mental production, because it only materializes the concepts and ideas created earlier in the process of the mental production. It makes obvious the system of interaction and subordination in the integrated economic field: the source and the foundation of the social wealth is the mental production. The material production only materializes the ideas created in the mental production in a more or less successful way. The information production is a link between the mental and the material production and combines the features of both of them.

Thus, *the main condition* for the efficient development of the economy as a system should be *the development of the mental production in the integrated economic field staying ahead of the information and material productions*.

Acknowledgement

This research is funded by the Program of Fundamental Researches of Russian Academy of Sciences №35 «Economy and sociology of science and education» project №12-P-7-1006 «Regional development institutes of the Economics of science».

References

- Bogomolov, O. T. (2005). Economy and social environment. *Ekonomicheskaya nauka sovremennoy Rossii (Economic science of modern Russia)*, (7), 14-31. (in Russian)
- Golansky, M. (1998). *Modern political economy. The century to come, what is it bearing?*, Moscow: "Editorial URSS", p. 152. (in Russian)
- Kiryanov, D. (2008). Christian concept of the culture. Retrieved from <http://www.bogoslov.ru/text/253876.html> (in Russian)
- Moskvin, A. (2003). The right-wing Yasin is at one with the left-wing Glazyev: Let it be the rent!. *Ekonomika I zhizn (Economy and life)*, (27). (in Russian)
- Pilipenko, E., Efimenkov, V., Tatarin, A., & Grinyk, K. (2008). *Dialectics of the material and mental production in the knowledge-based economy* (2008). Ekaterinburg, Institute of Economics of the Ural Branch of the Russian Academy of Sciences, 2008. – Shadrinsk, publishing house "Shadrinski Dom Pechati" (Shadrinsk Publishing House), p.295. (in Russian)
- Pushkov, A. (2009). Chimaera of the moral capitalism. *Argumenty I fakty (Arguments and facts)* 9(147), March 5. (in Russian)

Notes

Note 1. A.Pushkov: "Capitalism cannot be moral because it has a totally different objective! Its' main aim is to generate profit and super profit. But super profits have nothing to do with the morality...Under the influence of the USSR, the communist and the socialist movements quite a strong social safety system was developed in the West. They understood that it is better to share with the poor than to deal with the results of their riots. The modern capitalism has established a system of social shock-absorbers. But it does not mean that their internal logic is based on the morality and the responsibility. *It is impossible to create the moral capitalism*". (Pushkov A., 2009).

Note 2. The indignation of N. Sarkozy can be explained only from the position of the spokesman of the society (and, in fact, he performs this function as the President of the country). If the economy is a subsystem of the society acting strictly within the scope of its interests and bound to subordinate its actions to the interest of the society, then, of course, the egoistic actions of the managers as agents of the economic subsystem, jeopardizing the security of the whole system, are inadmissible and condemnable. But in the frames of the existing system they are well-reasoned and, moreover, encouraged for being "rational"; only in such way, taking care of him or herself, should act a "rational", "economic" person – the basis of the market economy. So why feel indignant? What goes around, comes around...