ECONOMY AND SOCIETY: HIGHLIGHTS

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Abstract: The pattern of the economic system has undergone dramatic changes over the past century, especially in terms of global markets. Golden standards are now part of the history. The US dollar has been an international monetary unit since 1944. Sixty years later, the Euro appeared. The trend in the development of economic processes indicates that future global markets will be the product of the national currencies of the countries with the most advanced economies. This trend is promoted by the process of globalization. On the other hand, state intervention in the economy will be indispensable in near future. Not only is there room for such intervention, but the need to intervene is growing more and more immediate. However, it is people who have an essential role to the development of the economy, since no economic system could exist without people. It is people who 'breathe life' to the economy. Economy was invented by people for the sake of people, i.e. to provide for their existence. Hence, the focus of economy must be on people. It is the economy which should exist in favour of people, not people who should exist in favour of the economy.

Key words: New economy; state and market regulation; individuals and society.

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The years of the 20th century were marked by two major events in the development of economy and human society. **The first one** related to the establishment of a socialist economic system. **The second one** was the Great Depression, as economists called the world economic crisis of 1929-1933. Both resulted in profound changes in the economic system and led to radical transformations in the political structure of society. Since we do not have sufficient knowledge to comment on the political structure of society, we will only share some considerations about **the economic structures** of the two social systems.

1. General Aspects of Economy

The socialist economic system was based on the public ownership of the means of production, i.e. their owner was the state. In theory, manufactured goods had to be allocated according to the quantity and quality of labor which individuals had done in favour of society. However, allocation of goods was governed by the principle of **equality**, that is, the principle that all individuals should obtain an equal amount of goods. At that stage of development of productive forces and public consciousness, that principle discouraged any attempt to improve the means of production or to work harder and more efficiently, which **put to a halt** technical progress, the acquisition of further qualification and, hence, social progress in general. On the other hand, the socialist system itself emerged in a country where productive forces were not sufficiently developed.

The prominent theorist, Carl Marx, had predicted that a socialist economic system would appear simultaneously in a group of countries with the most advanced productive forces. Lenin 'corrected' his view by pointing out that this could also happen in a single country which was less developed or even lagging behind in terms of its economic development, as it was the case with Russia then. Historical development proved him to be wrong.

A frequently asked question is why socialism collapsed and a variety of reasons are given as an answer. Our explanation is brief and specific. In the first place, socialism collapsed as a social, political and economic system, because **it was stillborn**. Production forces were not sufficiently developed **to breathe life to it** and it is a common fact that the dead do not rise, unless they are the son of God. History, however, 'never sets goals which are impossible to achieve'. Although socialism was 'stillborn', we must acknowledge the fact that its manner of production gave the origin to some elements of the future economic system, especially in terms of its social structure. This is a point we will come back to later on.

In essence, the capitalist economic system is the opposite of the socialist one. The means of production are privately owned by the owners of monetary capital. The means of production also relate to the labor force which is hired on the free market, i.e. a process of purchase and sale is implied. The owners of the means of production acquire produced goods and services, while the individuals involved in the immediate production process, i.e. workers, are paid some monetary remuneration. That process has continued for three or four centuries now, yet its course has been marked by some significant changes.

The capitalist mode of production has changed dramatically. It is no longer what it used to be even a century ago. Despite those radical changes, it still remains **related to its original form.** In the 20th century, due to the changes it was subject to, capitalism was given a new name, **imperialism**, and its **death** was predicted. Contrary to those predictions, however, capitalism had some major accomplishments in terms of economic development and **did not yield** to the advance of the socialist system. What is more, after the collapse of socialism, the capitalist system gained a stronger impetus to continue to serve the human civilization.

The capitalist economic system has contributed immensely to economic development. That contribution is generally acknowledged and is not called into question. For example, the wealth created by the capitalist world in the 1900s only, exceeded the wealth which had ever been created up to that moment. The underlying forces of the capitalist economic system encouraged people to improve the means of production, to benefit more productively and efficiently from available natural resources, and thus to promote economic growth and moral progress.

At the same time, those underlying forces resulted in a number of negative phenomena which gradually eroded the capitalist economic system, thus leading to its destruction. Although naturally inherent to its nature, these forces became tremendously powerful during the latest global economic crisis of 2007-2010. As we already pointed, this is a fact recognized by the world's most prominent leaders, politicians and statesmen, as well as the most prominent philosophers, economists and sociologists. Some of them have even come to deny capitalism as an economic system. As the former German Minister of Finance, Peer Steinbrück put it, 'It is only natural that capitalism will reach the point of its self-destruction, once it has been brought to the extreme'. If we adopt a less emotional approach to the current problems of the economic system, we will identify sufficient signals that its further development will improve in a many aspects.

This holds true, above all, to the numerous problems of **the commodity-money organization of public production** or what we now call **a market economy**. It is high time we realized that the commodity-money economy is a form of organizing not only **production**, but **distribution** and **consumption** as well. While it is important to organize production efficiently, it is just as important to establish an **adequate** system of distribution of what is produced and needs to reach the consumers. An entity may produce high-quality goods in large quantities, yet, unless the value of these goods is distributed as monetary income among production agents according to their contribution, there will not be a further production cycle, i.e. production will cease.

By exchanging goods for money, people exchange their labor. Due to this principle, there must be **a fair ratio** between what individuals provide to and benefit from society, in other words, their gain must be **commensurable** to their involvement in the process of creating goods and services. Therefore, no one is entitled to gain more than what they are attributed according to that **fair ratio**, unless the extra benefit is acquired through donation, by credit or has been stolen by the individuals themselves. This applies to both individuals and societies in national economies and in terms of international relations on a global scale.

Reasonable commensurability between the income of immediate producers and the profit of the capital employed in production is essential to the development of the economy. Rough estimates indicate that the ratio between the income of immediate producers and the profit of capital is 65 to 35 in favour of capital, which is an extremely unfair distribution of the gross domestic product between capital and labor. It also is the main reason for the growing **tension** in economy and in society in general. This unfair ratio of distribution is becoming more and **more unbearable** every year. The sooner the owners of capital, i.e. employers and people in power, realize the gravity of the situation, the longer the established economic system will be able to serve human civilization.

We will next deal with the sphere of circulation and, in particular, the monetary system which encompasses financial and banking institutions. We have already described the nature of the movement of goods and their value in the form of money. From production warehouses, **goods** go to retail stores and then into consumers' households. **The money** which represents the value of goods comes out of the vaults of central banks to go to commercial banks and financial authorities and then to the same consumers. At the final stage, money and goods meet. For economic processes to run normally, the quantity of goods must fully correspond to the quantity of money in circulation. When this is not the case, inflation processes occur and they have proved more than once to have a devastating effect on the economic system. Hence, our persistent appeal to policy-makers: **'Do not let this happen! Inflation processes inevitably lead to devaluation, which is a negative performance appraisal of your governance.'**

The main cause of inflationary processes in the second half of the 20th century was the misuse of paper money systems on behalf of authorities. As we have already pointed, at that time, both theory and practice supported the **budget deficit** funding of the economy and social life. In theory, the beginning was set with the perception of moderate inflation. We believe that this was Keynes' only recommendation which life proved to be wrong. The practice refuted the much praised opportunities offered by the budget deficit funding. What is more, this is the case not only when the mechanisms of national currency units are employed, but when real international credit is used as well. Loans must be paid back. Greece is a recent example. Therefore, the theory of budget deficits is likely to remain in the past, in contrast to the policy of balanced budgets as the most prudent financial policy in a market economy.

Over the past 100 years, the economic system has undergone some major changes in terms of **global markets**, too. The gold coin standard, the gold bullion standard and the gold exchange standard are now part of history. Since 1944, the US dollar has become international money. Sixty years later, the euro appeared. Similar regional currencies appeared in the Far East - the Japanese **yen**, the Chinese **yuan** and the Indian **rupee**. What all these national and regional currencies had in common was that they were directly affected by the national economies of their countries. Thus the economic instability of individual countries was transferred to the international money which they had accepted as their currency. The logical development of economic processes implies that future global money will be the product of the national currencies of the most powerful economies in the world. This trend in the development of the economic system is determined by the process of globalization. It is however too early to predict which institutions will issue the future global money or what that global money will be backed up with.

2. Who Should Be the Regulator of the Economy – the Market or the State?

The occurrence of the global economic crisis in the first decade of the 21st century raised an important question: who should be in charge of the development of the economy? Should it be left to the influence of natural market forces, or should its development be regulated by government authorities? The major issue was that of **the place and role of the market and the state in the economic system**.

As we know, the Classical school of economics and Neo-liberalism assert that **the free market** is the best regulator of an economic system, while Keynesian economics allow for some state intervention in the process. Back in time, the ideas advocated by both schools went to such opposite extremes that those of the first theory turned into a variety of **market fundamentalism** and the ideas of the latter could be identified as a type of **state fundamentalism**. And the truth, according to **Hegel**'s dialectics, is always somewhere in between two opposite extremes.

As evident from historical references, the idea of the **free market** has survived the longest, both theoretically and in practice. The underlying reason for the dominance of that idea is the success of **individual entrepreneurship** as well as the significance which the concept of ownership has had in people's everyday life and thinking patterns. The theory about government intervention in the economy had a more recent origin, i.e. the onset of the global economic crisis in 1929-1933. The underlying assumption of that theory is that due to occurring negative phenomena, the market may have **unpredicted negative effects** on economic development which instigate economic crises and lead to extremely unfair distribution of the gross domestic product and hence a growing gap between poor and rich people. These negative effects may be as powerful as to cause the collapse of the economy and pose a threat to the social system in general.

An in-depth analysis of the economic system clearly indicates that **government intervention** in the development of the economy is objective and natural. Furthermore, it is bound to increase. In our opinion, government intervention into economic development is objective in nature since through it:

First, the state ensures the security of individuals and the defense of the country.

Second, the state guarantees the security of the territory (land, water and air) where the tangible elements of production forces are.

Third, the state is the owner of all natural resources - forests, lakes, rivers, marine territorial waters, coasts, shores and river banks, as well as the underground mineral resources.

Fourth, the state is in charge of having the entire infrastructure on its territory built - railways, roads, ports, airports, power transmission grids, telephone and telegraph lines, irrigation canals, dams, aquifers, gas and oil pipelines with its own funds. It thus performs a purely economic activity and is the owner of the existing means of production.

Fifth, production, culture and science are only possible when money is invested in them. Through the central bank as its issuer, the state puts into circulation the ‘great wheel of circulation’ - money. The state is also in charge of the stability of the purchasing power and capacity of money.

Sixth, through the parliament elected by the people, the state sets the rules for the entire economic activity in terms of production, distribution, exchange and consumption. It adopts laws, decrees and regulations. It is the state which sets taxes, excise duties, duties, fees and any other economic instruments.

Therefore, the state must have the right to intervene in the economy. This intervention is materialized through conscious regulation and determining the direction of economic development. As a matter of fact, this should be considered not only a right, but also as an obligation which governments have to the people who have delegated power to them. In the contemporary world, any disregard for the requirements of the sovereign, i.e. the people of a country, is sanctioned through the government’s fall from power.

There is no doubt as to the truthfulness of the theses about the role of both the market and the state in the economy of a country. There are different opinions about the degree of that involvement in the process of governing the economy. It must be determined according to their contribution to social progress. As multiple examples in economic history indicate, the **market regulation** of the economy has brought social development to unprecedented heights. **The state regulation** of the economy helped society deal with the global economic crises of 1929/33 and 2007/10 and gave the green light to further progress.

At the same time, we should not ignore the negative impact which both types of governance have had on economic development, thus preventing society from achieving even greater progress. Without going into detail, we should note that **the market**, being deprived of human senses, distributes resources among the production sectors without taking into account human needs when determining the purpose of production. It also encourages the extremely unfair distribution of the gross domestic product between capital and labor, thus triggering colossal crises and even catastrophes. The 'governance of the market' in the Bulgarian economy, for example, has transformed enormous plots of fertile land into deserts and the beautiful Black Sea beaches into overbuilt concrete jungles, while highly-qualified young professionals have been forced to go abroad. On the other hand, 'government regulation of the economy', interpreted as the centralized governance under socialist regimes, suppressed any initiative by applying the principle of total equality and acquired the form of **ugly totalitarianism**.

Hence, the conclusion we can make is that **the market** ensures more abundant tangible goods and more efficient ways of producing them; **state intervention**, through well-planned government decisions, eliminates any sectoral disproportions and crisis turmoil and makes the necessary adjustments to the process of distribution between capital and labor and between production and consumption. **Therefore, neither the market, nor the intervention of the state can be excluded from the economic system of a society.** They are both equally important to the economic system of a modern society, just as a man and a woman are necessary for the human life to be continued. Hence, a key issue from now on will be employing both of them more efficiently in favour of a more rapid economic, cultural and moral development of societies.

Initially, the capitalist economic system was successfully regulated by the market. State intervention, if any, was fragmentary and not of crucial importance. The 'invisible hand' of the market regulated and guided economic development. Gradually, however, the quantitative parameters of the commodity-money economy grew, both in individual countries and in the relations between them. Today's economy is a process of **globalization** of production, commerce, commodities, money, capital and labor. The allinclusive framework of the commodity-money economy, both domestically and internationally, cannot be set by the market only. State intervention is required as well. Obviously, the market cannot, and in the future will hardly be able to govern the complex **relations of distribution** between capital and labor. The market is relentlessly and ruthlessly widening the gap between the poor and the rich in favour of the rich in individual countries and in the world in general.

In the next place, the market has not solved and will hardly solve equally complicated issues related to **health care and social security**. In this sphere, new issues have emerged, such as the creation, **acquisition and implementation of knowledge** and vocational training, **the training and retraining of the workforce**. The future technical progress will be based on knowledge-based economy and the qualification of the workforce. These are aspects which market mechanisms can neither ignore, nor adequately provide for. Finally, the market seems not to perceive a number of environmental problems which put a threat to the future of the planet, unless states fail to adopt some decisive measures for solving these problems.

Hence, the conclusion that **state's intervention** in the economy will be **essential** in the years to come. There is already sufficient awareness of the importance of such intervention and the greater range of responsibilities it relates to. Unless the state is ready to perform such functions, the economic system will collapse due to the social problems which have remained unsolved and due to a future global crisis. Hence the warning to decision and policy-makers: **Be careful! From being merely a 'guardian' in the past, the state must become a regulator and a power house of economic development in the future**.

3. People in Favour of the Economy or Economy in Favour of the People

There is another major issue underlying the economic system of the modern world which will be decisive to its future development. It refers to the role of **the individual** in the economy. If the role of the state in the economy is determined by its nature as a collective body and a political formation, that of individuals is primarily determined by their quality as **producers** of goods and services and then by their position of **consumers** of those goods and services. Regardless of that difference, both the state and its citizens have to promote economic development, or, in other words, to encourage the successful interaction between them and nature so as to create essential tangible and intangible goods.

Individuals have such an important role in the economy that without them, it would be virtually impossible for economic systems to exist. People are the lifeblood of the economy. Economy was created by people to serve them, to provide them with the goods and services they need to exist. Therefore, the focus of economy must be on people. In the relationship between people and nature, people are of primary importance. In practice, as well as in theory, things seem to be upside down though, as the saying goes. Economy, which was created by people, seems to have excluded people from its focus. Instead of the economy existing to serve people, it looks as though people exist to serve the economy. While every effort is made to promote economic development, the human individual is left somewhere in the background of that activity. Economy must serve people and not the other way round, as people are the utmost creation of nature. **Economy was created to serve people; people were not created to serve the economy**.

We must admit that this paradox of **people serving the economy** stems from the essence of the commodity-money economic system. That paradox is governed by objective forces, too. The production of commodities was not designed to meet the needs of their immediate producers, but those of other economic agents. Thus we are served delicious meals in restaurants and offered comfortable rooms in hotels, not because their owners care if we are hungry or tired but because their **only** objective is **to make profit**. The key question then is why has the human individual been excluded from the **goal of production** in the pursuit of making huge profits.

We described the relationship which exists between people and the economic system as a ‘paradox’. Strange as it may sound, this statement is true. Both nature and social life abound in paradoxes, which may seem strange, yet are quite natural. Both the purpose of public production and **the pursuit of profit** relate objectively to the essence of the economic system which uses money as its instruments. This feature of the purpose and profit is a materialisation of the essence of the monetary economy.

The concept of profit itself is a **contradictory combination** of elements which are both positive and negative to the economy of a society. On the one hand, it ignores the interests of people while trying to satisfy their needs with top-quality goods and services. What is more, for the sake of profit, manufacturers, driven by their desire to generate higher profits, are ready to commit crime by using substances which are harmful to human health. On the other hand, higher profits can only be generated by improving the production process. This is achieved by modernizing the labor factors and increasing the qualifications of the labor force which employs them in the production of tangible goods.

Profit is the economic category which encourages producers to take sensible actions. Competition forces manufacturers to introduce technical innovation so as to increase labor productivity, reduce production costs, and thus increase the profit generated by their capital. In the past, when I was reading lectures in front of my students, I was not afraid to call competition and profit ‘wonderful mechanisms’ of the capitalist mode of production which promote technical progress and, hence, the progress of human civilization. I will now repeat this again. The capitalist socio-economic formation has proved its advantages over socialism through the driving forces of competition and profit.

Such is the dual nature of profit. It grossly ignores the interests of people, their place and role in the economy. At the same time, profit generates the incentives for improving the forces of production so that societies will produce more and better quality goods and services which people need at lower production costs. Economy exists to provide everything that is necessary for the continuation and reproduction of human life. What is more, the socialist economic system collapsed because it failed to provide the conditions required for technical progress. By focusing on the process of distribution rather than on production, the socialist economic system was unable to create greater national wealth which was **a must** for the social program it had chosen to implement. We will note again that our considerations refer purely to economic development and not to the political system which, deprived of democracy and full of totalitarianism, would not have survived anyway.

The relationship between economy and people and the controversial nature of profit indicate how dangerous extreme fundamentalism is in both its market and centrally planned variety. **Market fundamentalism**, in its pursuit of profit, **does not take into account people**. **The command economy fundamentalism, which in theory focuses on people, is virtually unable to satisfy their needs since it prevents technical progress.** As we already pointed out, the market, which is governed by the pursuit of profit, distributes newly created goods unfairly, thus generating social tension, while a command economy leads to just as unfair equality and dangerous totalitarianism. It is equally dangerous to build an economic system based solely on either of the two principles. Rather, policy-makers should identify opportunities for combining the positive elements of the market and the state into the economy and mitigating the negative ones. This is undoubtedly a difficult task, yet life, and the progress of human civilization seem to be suggesting solutions to the problem.

Being the driving forces of technical progress, profit and competition are indispensable elements of the market economy. **When, however, their effects go beyond the critical point of negligence and irresponsibility towards people, both of them become difficult to tolerate. It is immoral to leave the majority of people to live in poverty to secure the enormous wealth of but a few individuals. It is irresponsible to distribute the newly**

created public product so that most of it goes to a handful of people and leave the majority of them suffering in the clutches of poverty.

This happens because people, the main productive force involved in public production, are excluded from the distribution and consumption of most newly created products. Obviously, people are a major element of the economic system. People create the economy with the sole purpose to provide for their physical and spiritual needs. Therefore, everything that is done must be subject to the welfare and prosperity of human beings.

A society cannot achieve progress when its members live in poverty. The well-being of citizens is a major indicator that society is doing progress. It is not the purpose of the economy to contribute to the welfare of few individuals, but to that of all people. In short, the economy must be humane, its focus must be on people and their needs.

But how can the economy which is based on the **pursuit of profit** become **more benevolent to people**? Is such a combination feasible at all? As we have already noted, this may be difficult, yet it is possible. It is a **difficult task** because capital will not yield readily the positions it has gained. It is **possible,** though**,** because there is no other alternative to preserve and develop the existing economic system. Economic crises, the poverty of large masses, rising unemployment and social tension gradually but surely will destroy it unless they are dealt with.

It is encouraging that both intellectuals and political leaders, regardless of the ideological views, are becoming aware of these economic processes and the responsibility they bear. Only after profound changes have been made to the economic system will it be able to continue to serve humanity.

All the negative phenomena which hinder the further progress of the economy stem from **the current system of distribution of the newly created public product between capital and labor**. **The ratio of two-thirds of that product going to one tenth of the population and only one-third of the product going to nine-tenths of the same population opens a gap between the rich and the poor. It leads to excessive wealth for some and extreme poverty for others. Both situations lead to the cultivation of certain attitudes and types of consciousness. The rich believe that being well-off is a sacred right they are entitled to in result of their ownership of capital, while the poor cultivate the will to put an end to their poverty even if they have to resort to means which are not lawful. Both parties take appropriate action.** Hence the conflict arising from objectively existing conditions.

Apparently, the 21st century requires changes in the distribution relations between the agents of the production process. It would be reasonable to reverse the above quoted ratio, i.e. to have a third of the created public product going to the owners of the capital, so that immediate producers will have two thirds of it to satisfy their basic needs. Such a ratio of distribution will give reasonable shares of income to both parties. We do believe that similar distribution will improve the market equilibrium, reduce the possibility of potential crises, bridge the gap between the rich and the poor, and prevent social conflicts, especially incidents of violence. But who is able to make such extremely complex adjustments and alter the distribution ratio?

Obviously, this can only be achieved by the state. The state has the capacity to do so both politically and economically. In terms of **politics**, the state has the power and the judicial authorities. In terms of **economics**, it allocates more than 40% of the newly created public product. No other public institution has so much political and economic power. The state **ensures** the security of individuals and the defense of the country. It **owns** all natural resources which make production possible; it **builds** the entire infrastructure on its territory and **establishes** the necessary conditions for the normal functioning of the economic system. Therefore, it is not only the right, but also the duty of the state to intervene and regulate the economy. As far as the instruments it may employ to do so, there are quite a few of them – all of them provided by the economic system itself. These are economic categories related to money, finance, and credit. The state should **regulate** all economic processes, including the **standard of living of its citizens**, through the interest rates policy, taxes, excise duties, customs tariffs, pricing and income policies. To start with, the state needs to make meaningful the concept of **regulation through control functions**. This must be followed by its strategic guidance of the economic development. Through its governing bodies, ministries and government agencies, the state must exercise strict control over the quality of food and medical products, the prices of essential goods and services, the income of the agents involved in the production process, the profit of businesses and business structures. The greed for higher profit leads to anomalies. At the same time, people do not work for others as they would work for themselves. Unfortunately, the current level of public awareness does not adequately translate the relevant moral norms of behavior. Prospects of changes in this aspect are still remote. It has long been known that attitudes are hard to change. Therefore, the intervention of the state is required, i.e. the state should fulfill its role in the economy by exercising comprehensive control over any aspect of public life - from production to consumption.

The urge to create an economy in favour of people had its origin in the second half of the 20^{th} century. It gained particular importance during the global economic crisis of 2007/2010. In fact, the statement of the French President Nicolas Sarkozy, ‘We do not need such capitalism’ has the same meaning, only put in different words. The father of the social market economy in Germany, Ludwig Erhard, **pleaded** that Christian charity should become social justice so that the rising productivity of labor would bring prosperity to everyone (Erhard, 1993). The winner of a Nobel Prize, **Maurice Allais**, called on European countries to establish a **humane** economy based on two principles: '**efficiency and ethics**' (Allais, 1991). Both authors chose symbolic titles for their works: 'Prosperity for All' and 'Europe faces its future. What to do?' The symbolic meaning is not difficult to interpret - a **new** economy is needed, an economy in favour of people.

Former socialist countries in Eastern Europe made an attempt to establish a 'New Economy'. They did so over several decades, yet their attempt was not successful. A number of politicians and scholars have now sent the socialist system to the 'dump of history'. As a political and economic structure, socialism is obsolete indeed. To be objective, though, we must acknowledge the fact that it left some **indications** which must not be forgotten and are likely to serve as guidelines for potential future development in the sphere of healthcare, education of the young people and the social security of elderly citizens.

The currently existing system in these spheres is based on commodity-monetary relations. Health and educational establishments have been transformed into suppliers of goods and services - health and future occupation. Hence, health, occupation and old age have been made subject to purchase. Some entities, established as trade organizations, sell them and people buy them. For those who can afford the purchase, the situation is rather different than it is for those who cannot.

In our opinion, such a system would hardly survive long. We find it **unnatural** to trade health, education, or old age. A civilized person will hardly agree to put up with a system which is in conflict with human nature. People have the right to healthcare, education, a comfortable old age just as they have the right to exist. We, therefore, believe that in the future, the economic system will have to be built in a way so as to cover the cost of education until people are prepared for labour and creative activity. And once individuals reach a senior age, society will have to take care of securing their comfort and stability. This is precisely what we mean when we talk about the concept of the economy in favour of people. Economy can and should be both **effective** and **humane**. People do not exist to serve the economy, the economy should exist to serve people. We are confident that society will become aware of that. The sooner, the better.

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