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Social System as the Environment of Economic Processes

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I. Terms

Labour owners are people who sell their skills and abilities temporary or who do certain jobs for hire. They manage their labour in order to generate income (profit). These include all employees.

Asset owners are people who own the means of production such as capital, firms and companies. Asset owners employ labour owners for the production and distribution of material goods and services. They manage their assets in order to generate income (profit).

Resource owners or government are people who control the state property and natural resources such as state budget, municipal property, land and water available. The resource owners employ labour or company owners to produce and preserve resources. They manage national and municipal resources in order to generate income (profit). These include officials of various ranks who use or distribute state and municipal budgets.

An element of a social system is a group of people who own one type of property, which is the main source of their income (profit).

Social system is a society organized to conduct economic exchange between elements of the social system.

Macroeconomics as science has a variety of terms and definitions to describe the processes of exchange and distribution material goods but it rarely pays attention to the environment in which these processes occur. In fact, we are accustomed to perceiving economic processes without paying attention to the environment. Out of habit, we take this environment as a multitude of economic subjects or we mean that we are dealing with an economic system consisting of firms and households. What could be interesting about this? - The subjects differ from each other in their economic relationships, This main difference is the difference between a seller and a buyer. Here comes the fatal error of all economic theories. Nobody thinks about the subject of a sale, considering it obvious that the subject of the exchange is some goods! Everything that is sold or exchanged is a commodity. We are in the trap of our own naivety. We can not find differences between economic entities depending on the product. So we consider everyone who sells and buys goods as subjects of economic relationships. This undetermined mass of economic entities, therefore, is an economic space or an economic system. The uncertainty of the number of groups of goods multiplied by the uncertainty of the number of sellers and buyers (households and firms) creates such a scale of uncertainty in the behaviour of this system that it questions the reliability of any macroeconomic theory itself. As a result, all existing theories have a lot of limitations, only within which they are true. Heuristic methods also do not allow us to understand economic processes with acceptable reliability for several reasons:

The social environment is not described as the basis of economic space.

The criterion for economic human behaviour and its role in the economic space are not defined.

Macroeconomics does not take into account changes in the social environment as the cause of changes in economic processes.

I will explain my view of the economy from the point of view of the social environment that forms the economic space and ensures economic processes.

I will begin by saying that the very concept of economics requires change. It does not meet the objectives of economic research. Not to mention the need to combine macroeconomics and microeconomics in a single discipline based on common parameters. Give up the usual misconceptions that today are called economics. Cast doubt on what was taught at universities. Think and ask yourself whether the economy is a set of relationships connected with production and economic activity? Why the exchange of material goods is an economic process? Can we say that economics is the science of rational behaviour or choice that economists are aware of if we are not sure of our own rationality? And if we consider rational behaviour or choice to strive for profit, then economics is the science of profit. No more no less. All that any economist seeks is to find a way to increase

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profits. But profit does not arise from the exchange of material goods or trade, as opposed to benefits. The benefits do not depend on the structure of society but arise from personal relationships between people.

The benefit can be a profit but the profit is a benefit only when there is an economic exchange in a society organized in a certain way. It would be naive to assume that the addition of benefits entails the emergence of profit, as if from transferring apples from one pocket to another suddenly oranges will arise. Profit does not arise from the exchange of material goods for money - the equivalent of this good, therefore, the purchase itself is deprived of the possibility of making a profit. The exchange of one dollar for a commodity valued at one dollar does not change the amount of property either from the seller or the buyer. There is no profit. Therefore, the process of buying some material goods is not an economic one although it is accompanied by benefits for both participants in the exchange.

If you do not agree with such an obvious conclusion and prove the emergence of profit as a result of multiple transactions then you will simultaneously prove the existence of losses equal to the amount of profit. As a result, the profit will remain only a special case not peculiar to all participants of such an exchange and consequently a microeconomic parameter. While adhering to my definition of economics I affirm that all societies create profits at the macroeconomic level and then distributes them at the microeconomic level. Profits are not a combination of particular cases of their occurrences. Profit is not a product of successful entrepreneurship and trade. On the contrary, entrepreneurship and trade are the means to distribute the existing profits.

The second misconception is the view that material goods (some of them are known as consumer goods) are an economic parameter or property of an economic category. The consumption of material goods does not create profit, and therefore is not of an economic nature. Material goods cannot serve as an economic criterion of differentiation in society, as well as the particular case of profit from the exchange of material goods. If we define the profit as the difference between revenue and costs which manifests itself at the time goods sale, then it will depend on the costs generated in the production process or even much earlier. The number of characters that influence production costs, and therefore profit, will be significant even in simple cases.

Profit may be positive but the manufacturer does not receive it because it is not distributed in his favour. Hypothetically we can never define it as the sum of the profits of all economic entities that are accepted by such modern economies. Consequently, this means that we cannot talk today about economic management. But as soon as we define the structure of the economic environment where all its participants are divided into groups according to the economic basis, then the economy will become a tool for managing society. As a criterion for dividing society into groups, I identified property that is at a higher level than material goods. The owners of this property are grouped together and constitute a single economic environment in which this property is converted into profit.

There are three types of property needed to create profits: resources, assets and labour. The owners of these property types are grouped together and constitute the economic space (the environment) that I called the social system (6), pp. 107-115 DOI: Economy of Social Systems, or General Economic Theory: 10.15640/jeds.v6n3a11URL: http://dx.doi.org/10.5640/jeds.v6n3a1). The division of ownership occurs according to the predominant ownership of one of the properties. Three types of owners or three elements of the system are labour owners, asset owners and the owners of the resources (government).

The economic and social behaviour of a person determines the property that he owns. Property is a source of income and its owner acts in his property interests. It is possible to increase the value of labour, assets and resources by combining them to produce material goods. As the separation of elements (the increase in the number of owners of only one property), the need for interaction between the elements increases. And given the fact that the division of property contributes to the growth in productivity and profits then the division of property becomes economically viable.

Prior to the division of ownership, production could be organized by one person assuming that a person own at the same time labour, resources and assets. His goal was to produce material goods that determined his well-being. The choice of the production type was determined by the presence of certain resources, production equipment, skills and the need for material benefits. After the division of society into owners, the goal of production is profit (monetary reward). Profit from the participation in production or exchange gives the property owner the opportunity to receive material benefits, regardless of the production in which he participates. The material goods themselves become exclusively a commodity, the sale of which brings income to the production participants. The gap between production and consumption as a result of property division means the beginning of the economic exchange. Economic exchange implies the freedom to choose how to use the property and this choice is directed towards greater income. Greater income contributes to more efficient use of the entire social system. In the absence of freedom to dispose of property, or in the absence of property itself, there is no desire for profit (increased income). There is no profit formed. There are no economic relations. Therefore, before the formation of the first social systems, we knew nothing about the economy.

Production is present in any society, unlike profit, which arises only in a social system or an economic society, where the division of property is social in nature. The emergence of profit and its distribution among the elements of the system suggests that at the time of the conditional start of economic exchange the cost of labour, assets and resources is lower than the cost of labour, assets and resources at the conditional end of this exchange. Over time the ownership of the entire social system grows. This growth ensures the issue of money on the basis of new debt obligations. Issued money is invested in production, attracting more labour, resources and assets to the exchange.

As a result of the expanded exchange, more material goods are produced, which increases the ownership of the system as a whole. The distribution of additional material goods increases the value of resources, assets and labour. The increase in the money supply leads to an increase in the commodity mass, raising the volume of production and consumption to a higher level, and the system again needs a new issue for profit. The exchange process is as follows: (money + new debt) - (product + new product) - (money + profit).Each exchange cycle is accompanied by a monetary emission with an increase in investment in production, the attraction of a greater labour quantity or quality, assets and resources, and a new profit. In the social system, the emission and the corresponding investments become profit. The exchange relations between the elements become economic (with a view to making a profit).The profits of social system distribution conditions between the elements can change. Not all the elements increase their ownership in proportion to the money issued. As a result, the property of one or two elements can not only increase, but also decrease. This would lead to participation reduction in the of the property element in the exchange. This reduction will affect other elements changing the need for all property in exchange and causing economic fluctuations. The interrelationships between the three elements are not as primitive as the relationship of supply and demand between households and firms. On the other hand, it not so complex that we cannot build a reliable mathematical model of the social system economy.

For the formation of profits by the social system, it is necessary to fulfill two conditions:

The ability to emission

The ability to invest money in production

Additional emission money increases aggregate demand, to which the social system responds with an increase in the production of goods or an increase in prices. And here we are faced with the problem of unreasonable emissions, which could lead to higher prices and inflation.

Preferably the emission should be carried out for the purpose of investment in production. The issuer should not use equity funds for direct profits bypassing investment in production. The issuer must have a liquid property to ensure the money solvency before the commodity is produced and secure. The ideal issue is the government since it itself does not participate in the production either as an investor or as a producer. The government always has liquid resources. The investment of issued money in production is done by the owners of the assets, for which they must have profit incentives to expand the production or to modernize it.

For a social system, asset owner preferences to invest in expanding production or into increasing productivity are important. In the first case, the direction of investment coincides with the growth of production. In the second case, it is not. Investment into increasing productivity not only does not increase the production of material goods but also further reduces the use of labour and resources in production. This is accompanied by a decrease in material goods consumption and rising prices. The social system money supply does not decrease with the decline in production, which is a consequence of the low production profitability for assets owners. In varying degrees, when the money supply exceeds the produced commodity with the background of low return on assets then the price increases are inevitable.

The social system will inevitably be subject to economic fluctuations in growth and recession. The expansion of production invariably leads to an increase in the share of labour and government and the decrease in the share of assets (asset profitability). Investment in productivity restores the profitability of assets and production expansion becomes possible. Economic fluctuations are justified by the nature of the social system which cannot be changed without abandoning profits and economic development, which destroys the social system itself.

Economic stability, which most economists see as the constant expansion of production, is the process of increasing the share of labour and reducing the share of assets. Therefore, achieving economic stability is possible only with a constant reduction in the labour value or the assets owners profits. In any case, one of the elements will be destroyed and with it the social system. The economic recession is not a flaw in the system. It is a mechanism for adapting the system to new exchange conditions.

Considering that aggregate demand, which is equal to the amount of system elements ownership (Aggregate demand = labour cost + asset value + resource cost) does not decrease while maintaining emissions and investment in production, its dependence on "propensity to save" is absurd. Economic growth is

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characterized by growth in consumption by labour owners and the government. From the formula of aggregate demand, it can be seen that economic growth inevitably leads to a decrease in the share of assets, which means investments will be directed not to expanding production, but to modernizing it in order to change the conditions for the distribution of the profit.

With the growth of aggregate demand as a result of emissions, the property of all elements may increase without contradicting the owners' interests. But this situation is not stable to ensure constant economic growth. A physical increase in assets will still lead to a decrease in the percentage of assets in profits. As long as the profit of the assets remains positive, the production expansion will continue. As soon as the assets owners profit decreases to the minimum value then the easiest and the fastest way to restore it is to increase prices. This naturally leads to a sales decrease. An increase in the cost of labour and resources is perceived as a general increase in prices. A drop in asset returns looks like a decline in demand and assets owners behave in accordance with the general state of the economy.

What does a formed social system give to society? First of all, the division of society into three elements prevents the direct dependence of one element profit on the other element profit loss contrary system of two elements. Systems with weakly isolated elements can also be attributed to them. If we assume that we are dealing with an economic system consisting of two elements, then the aggregate demand in it will be equal to the sum of the two elements properties as, for example, owners of assets and labour. The profit of one system element will directly depend on the second element losses which will invariably lead to the dominance of the first element over the second.

Such “social systems” are well known to us as the slave or the feudal systems. One element controls all the property in such systems. Naturally, economic exchange in such a system is impossible. The social system of two elements, if it is possible, is an unstable formation. Having formed as a system of two elements, it will immediately form the third element. This way the capitalist society was formed (capitalism). The formation of an assets owners element is impossible without the formation of labour owners element.

Socialism destroyed the assets owners element. This led to the destruction of the labour owners element. The right to dispose of labour as a property in a socialist society was lost. We can call things as you please and accept capitalism as a system of two elements. We can even assume that there is a socialist economy but all this does not reflect reality. Speaking of economics, we will always talk about the social system of three elements.

In the social system of three elements, the one element profit does not directly depend on the other element losses. For each element of the system, the source of profit is the total aggregate demand. The aggregate demand growth is ensured by government money issue. As natural resources at government disposal, money is the same resource. Money has value only when exchanged within the system. Emission without investment provokes prices to rise. The social system through investment in production converts the money issue resource into profit. Unlike natural resources, emission money is a resource whose value is negligible and this resource is unlimited.

Using it as a catalyst, the social system uses the necessary amount of labour, assets and other resources not previously used in exchange. This makes the economy of the system “inflationary” and arising from nothing. Additional money launches additional metabolic processes between elements increasing the society wealth. Inflationary economic growth has no limits. Lack of natural resources and labour is compensated by productivity growth. The growth of social system wealth does not depend on population size, life expectancy, geography or climate.

Any society may be in a state of social system formation and historically it is a long process. Any society may follow the path of its destruction and we know that this may be a rapid process. The revolutions in Cuba and Venezuela did not lead these countries to prosperity. Natural and climatic resources cannot be used to enrich society outside the social system. The lack of economic environment for profit creation remains the main cause of their distress. States that have not formed a social system or destroyed it often resort to the use of military force to improve their financial situation. They do not have the possibility to get rich through different methods. They process resources into wealth with low efficiency compared with the social systems. This inevitably leads to economic backwardness. It is enough to compare East and West Germany to make sure that the formed social system has the advantage over the destroyed one.

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