

Chapter one:

Concept and subject of the political economy and its relationship to other social sciences

1. Concept of the political economics

1.1. Emergence of the political economics

The term "political economics" was first used by **Antoine De Montchrestien** in 1615, who wrote a book for the Prince with a number of tips for managing the city's public funds and ways to increase and distribute wealth. Thus, the political economics focuses on policies to increase the state's wealth and solve its economic problems.

Before the advent of the industrial revolution, the political economics referred to the meaning of managing the State's funds in order to increase its wealth, and then further evolved with the emergence of the social economics, adding to the basic functions of the State to ensure security and promote the social well-being of society. Despite the bourgeois' attempts, in the midst of conflict with the socialists in 1920s, to separate the economy from politics by preferring the term "economics" rather than "political economics", but the emergence of the Great Depression crisis of 1929 deepened the connection of the economy to politics, as the relationship of the economy to politics (Political economics) has never been interrupted. Even in liberal capitalist States advocating free doctrine, there are several forms of government intervention in economic activity for many purposes; like protecting or encouraging local production and maintaining price stability.

1.2. Definitions of economics

With the complexity of the definitions of economics, giving a single unanimous definition has become difficult. From the most famous definitions of economics or political economics, there are:

- The founder of economics, **Adam Smith**, defined economics as wealth science, which seeks optimal means of accumulating and distributing wealth. It is the science that studies ways of creating, distributing and consuming material wealth. According to this definition, wealth is measured by production of material goods to satisfy human needs directly and indirectly. The greater the production of such goods, the greater the wealth of the State. As noted in Smith's definition, wealth is limited to material funds and material goods, and therefore services are excluded, contrary to modern definitions that concern services as non-material goods with economic benefit and value.

- As for **Marshall**, in the context of his definition of the economy, he pointed out that its subject is man (human-being), and therefore it is the science that looks

at all the actions of man in his daily life that relates to how to get his income (his wealth) and ways of managing, using and consuming income. Thus, Marshall added to the definition of Adam Smith the study of man, that is, the economics must extend to include, in addition to material wealth, man's activity and economic actions in how he gets his income and ways of using it, and considered man to be more important than wealth.

- Some defined economics as the science of satisfying multiple and changing human needs, others suggested that economics was the science of exchange with the introduction of the concept of price.

- **Robbins** defined economics as the study of human behavior in the field of the relationship between his diverse and changing objectives and rare means that can be used. So, it is the science that looks for the ways that can satisfy the diverse needs and goals with the limited and scarce resources. Economics is the science of compatibility between means and purposes, and this definition is the most widespread because it clearly shows the so-called economic problem.

So, economics differs from other human sciences in that it studies a particular kind of human activity, economic activity, and is meant the actions that man does to satisfy his desires and needs in an effort to balance endless needs with limited means of satisfying them.

- As for **Pigou**, economics is defined as a science that focuses on studying economic well-being.

- **Krugman** defined economics as the study of economies at the level of individuals and society as a whole. The economy is a complete system for coordinating the production activities of society with a view to maximizing benefits and satisfying needs.

- Other definitions that link resources to needs clearly indicate that economics is the science that examines the problem of reconciling multiple and renewable needs with scarce resources, including:

- * **Samuelson** defined economics the science that is concerned with examining how individuals and society choose to use scarce resources to produce different goods at successive times, and how to distribute these goods to present and future consumption and between different individuals or groups that make up society.

- * **Oscar Lange** defined economics as a science of organizing and managing relatively scarce human and natural wealth resources in human society for the

purpose of satisfying the multiple human desires of various economic goods and services.

- * Economics is the study of human well-being in the use of resources to satisfy needs.

- * Economics is the study of economic laws that control production processes and the distribution of material means to satisfy people's needs.

- * Economics is concerned with studying the continuous recurring relationships between the elements of the economic process during the production and consumption of goods, to record and arrange economic phenomena and then extract from them what is characterized by repetition in a pattern of regularity to formulate the laws governing them.

Economics in Arab scholars

- * Economics is the set of rules that explain economic phenomena related to the production, distribution and consumption of wealth.

- * Economics aims to examine the relationship between multiple needs and limited resources in order to achieve the greatest possible satisfaction of needs, through the efficient use of available resources while working to develop them as efficiently as possible.

Finally, political economics can generally be defined as the science that studies the activity and behavior of individuals and human groups to obtain economic resources, goods or services that achieve the fullest possible satisfaction.

1.3. The subject of Economics

Economic activities are characterized by complexity and interconnectedness, in with countless economic processes and transactions being fulfilled in every day including purchase and sale within the country and among the world's nations. Therefore, some economists confined economics to examining the various economic phenomena associated with those activities; like studying supply, demand, market balance, unemployment and inflation. The role of economists then is to describe economic life basing on statistical data, to reveal the interactions between economic variables, provide diagnoses and expectations,

propose solutions to problems, and to anticipate the results of various measures and policies.

The subject of economics is characterized by change, expansion and renewal, as well as complexity and interconnectedness; many subjects that were included in the scope of other sciences are now of the concerns of economics, given its relevance to human well-being, dignity and health. Economic activities that are the subject of economics cannot be separated and studied separately from the study of human beings and their surroundings. Therefore, economics can be conceived as social science, and there is therefore a consensus among modern economists that attention to economic production, satisfaction, composition and management of wealth is not the ultimate goal itself as it once was, but they are means of maximizing human well-being and serving development as a whole.

Therefore, the subject of economics is not only aimed at seeking maximum efficiency by maximizing production, profits and benefits from the process of exchange and production at the lowest cost. Rather, it focuses its attention on human beings and the rationalization of their consumption. economics is designed to help societies develop not only at the level of material well-being but also at the level of social justice and to ensure the sustainability and preserve human dignity and ambition.

To better understand the subject of economics, there are some basic terms must be understood:

- **Need:** is every sense of lack and deprivation of a commodity or service.
- **Wealth:** in order to satisfy one's desire, an individual must use the wealth available in nature that is not usually readily available or in usable form, so it requires an effort to obtain it and convert it into economic goods and add other economic benefits to it. However, wealth in nature is not available in the quantities required or in a suitable form, leading specialists to refer to it as scarcity. Wealth can be defined as the sum of economic goods directed to meet individuals' needs and economic activity, whether it is in the form of raw materials, semi-manufactured materials or even rare wealth (such as diamond).
- **The concept of economics:** economics focuses on the study of how scarce wealth is used and distributed to meet individuals' many needs.
- **Defining economics as wealth:** Economics examines the social organization of physical production achieved to provide production, distribution and consumption

of wealth produced by members of society. Since the wealth of nations is a fundamental concern of economics, the main concern of science is the economic system and its organization to achieve the goal of satisfaction and maximization of well-being.

- **Economics and Behaviors Analysis:** The scarcity of resources has led economics to focus its attention on the study of human behaviors to rationalize choices, where achieving the goal of satisfying needs, under the constraints of wealth scarcity, has given considerable attention, in addition to the production and economic agents who contributed to the production process. Therefore, the attention has become focused not only on relationships between goods but also on individuals' behaviors compared to goods or wealth available.

1.4. Relationship of economics to other sciences

Economics is considered a social science, and therefore cannot in any way isolate it from other social sciences or establish dividing boundaries between them. Explaining economic phenomena requires economists to explore and use other sciences. Economic problems are often associated in one way or another with this science or that; if the economist uses it, he/she combines the theories that underlies economic studies with other human knowledge. So, he/she combines his/her role as an economic researcher and social researcher, which leads us to research the reality of economics' relationship with the rest of humanities.

There is a common agreement among scientists on the division of science into natural sciences that studies things and includes mathematics, physics, etc., and social sciences that studies human-being such as economics, politics and others.

1.4.1. Relationship of economics to politics

Economics is linked to politics so there is mutual relationship. Economic activity is influenced by governance (regime or political system) and the form and orientation and priorities of governments. On the other side, economic conditions have been instrumental in determining political developments and on many occasions have directly caused Governments to fall or continue to govern. An economically wealthy State usually helps its political systems to stabilize, which in turn helps to expand and strengthen economic activity.

1.4.2. Relationship of economics to law

The law provides the legal framework and legislation necessary for the existing social system that determines the nature of economic activity. The legal legislator can expand or limit the circle of economic activity and put restrictions on economic transactions, the legislator can determine the forms and prices of goods according to social, humanitarian or even political considerations, the legislator may impose tax laws and customs policies and determine property, contracts, wage regulations and economic relations within the country and with other countries. It should be noted that strong justice is an important factor contributing to an enabling environment to support economic activities, and vice versa.

1.4.3. Relationship of economics to philosophy

Economics is interested in studying human actions, the latter being in close contact with ethics that is one of the branches of philosophy, and the pursuit of inductive methods of economic analysis depends on the rules of logic.

1.4.4. Relationship of economics to history

History provides the economic researcher with a clear perception of the social, political, cultural and legal factors that influenced the development of societies. Historical events cannot be neglected in the interpretation of certain economic phenomena, as they can be inferred from them to develop solutions to economic problems or avoid the same mistakes.

1.4.5. Relationship of economics to geography

Geography highlights the importance of determining which natural resources can be utilized. Geography provides the economist with information about the natural environment of economic activity.

1.4.6. Relationship of economics to sociology

The impact of sociology is reflected in providing the economist with information on customs, traditions, nature and demographics on which the economist depends to identify methods of production and the formulation of effective policies to achieve income and wealth distribution, and the development of an optimal development plan for the advancement of a particular region.

1.4.7. Relationship of economics to psychology

Both sciences are involved in studying the behavior of individuals and the factors and motivations that drive them to a particular behavior. Economics has to take into account the external behavior of individuals.

1.4.8. Relationship of economics to demography

Demography is the science of population study, population distribution, fertility and family planning. Mankind in economics remains the main actor in economic activity and the subject of economics. Demographic factors influence man's economic behavior.

1.4.9. Relationship of economics to statistics and mathematics

To insert accuracy into economics, economists rely on statistics and mathematics to collect, compile and analyze data in order to analyze phenomena and economic relationships in the areas of production, growth and others to assist decision makers and accurately predict different trends of economic variables.

2. Nature of the economic problem

We have seen that most concepts of economics have referred to the society's economic problem, and in the following we will try to address the economic problem in more detail.

2.1. Definition of the economic problem

Economics is mainly concerned with tackling the economic problem rather than solving it because it is impossible to do so, as human-being's needs have got changed and complicated, while resources capable of satisfying those needs are still unable to deal with them.

Simply, the economic problem is represented in the scarcity of available economic resources of all kinds relative to the needs. However, large they may be, they are limited when compared to their human needs, which are characterized by diversity, renewal and variation. The economic problem is mainly due to the multiplicity of human needs in view of the inability of available resources to satisfy these needs, which are characterized by periodicity, multiplicity, renewal or change, as well as infinite.

2.2. Characteristics of the economic problem

2.2.1. Needs are multiple and renewable

Need is an insensitive moral sense or desire of inadequacy and deprivation that prompts its owner to seek a means to satisfy that deprivation or incapacity. The need varies from human to another depending on the benefit of the consumption of goods and services, where there are urgent needs to be satisfied and resulted in great benefit; such as food, drink, clothing, and so on, prompting everyone to arrange needs according to their importance. In this context, needs can be divided into initial (necessary) and secondary needs, individual and collective, and renewed needs.

2.2.2. Resources are relatively scarce

scarcity means that the various resources that contribute to the production of any commodity satisfies a certain human desire found in limited quantities in society. Thus, the scarcity of goods is due to the scarcity of economic resources that contribute to the production of such goods. The scarcity of economic resources

varies from one society to another, and varies from one stage of development to another. What is rare in a society compared to the density of that society's population (the agricultural land in India) is no longer rare in another society by one standard (such as agricultural land in Canada). Thus, the variation in the scarcity varies from one society to another and from one economic phase to another.

2.2.3. Selection (Choice)

The second feature of the economic problem is the distribution of relatively scarce economic resources between multiple needs. The distribution of resources is extremely difficult, requiring the determination of which desires to be satisfied and which will be sacrificed and abandoned even temporarily. The issue of scarcity of the resources urges to answer the following questions: What do we produce (what goods and services the community wants to produce and in what quantities) How to produce (what is the optimal production method by which a particular commodity or service is produced) whom do we produce (how goods and services are distributed to those who contributed to their production) How efficient is the use of economic resources (is production sufficient)? Is society's resources fully employed, or are there some of them idle? How is the choice made between different industries?

2.2.4. Goods and services

Goods and services are the means of satisfying needs. Their production requires a continuous struggle with nature to search for resources and adapt them using a certain combination of work, capital, land and organization to transform them from their primitive form into other manufactured forms (production) that can satisfy needs.

To satisfy human's needs, it is necessary to involve into a production process to provide goods and services that create the benefit. In this context, products have a set of characteristics:

- Its ability to satisfy human needs.
- availability in limited quantities (i.e. rare).
- Possibility to be acquired and utilized.
- Having a reciprocal or subjective value.
- Usability on different production aspects.

- Replacement of some within certain limits.

In this regard, goods and services can be divided into several types:

- **Depending on their abundance:** they are divided into economic goods that are available in limited quantities, and free goods that are available in nature in unlimited quantities beyond their need require no productive process and require no physical or intellectual effort.
- **According to their usage characteristics:** productive goods (capital), intermediate goods (half manufactured) and consumer goods (durable and non-durable).
- **As important:** essential and luxury goods.
- **According to the nature of the commodity:** special goods for individual consumption, and public goods co-consumed by members of the community.
- **According to the criterion of utilization duration:** durable consumer goods, non-durable consumer goods.
- **Integrated and alternative goods.**

Thus, the economic problem persists owing to the limited resources available both to the individual and to society.

3. Economic agents

Economic agents are considered to be of great importance in economic life, as they are decision-making centers according to their importance, status and might as well as their activity. An economic agent is that person (moral or natural (individual or group of people)) classified according to the basic economic function performed by each agent, as well as by source (revenue) or basic income of each agent.

3.1. Householders (families):

Householder consists of people living under one roof; the family may include one individual. This sector includes families (individuals) and small family firms that belong to one family, such as craftsman, farmer, trader and other free professions. The main function of this sector is consumption and, to a lesser extent, production in the case of productive activities. Salaries (wages, rents, equity earnings, bonds, etc.), transferred income (family grants, etc.) are the basic income and wealth of this sector.

Families or householders are divided according to certain criteria, including: type of occupation, including agricultural workers, craftsmen, traders, managers of enterprises, employees, brokers and employers, as well as families without a professional job.

3.2. Non-financial institutions

This sector includes enterprises whose primary functions are to produce goods and services other than financial services. These include both private companies in all their legal forms as well as public institutions (whether commercial or industrial). As an example of these institutions in Algeria SONELGAZ, NAFTAL, ENIEM, and so on.

3.3. Financial institutions

This sector includes banking institutions (banks in all their types and specializations) and non-banks financial institutions; like insurance companies and pension funds, where financial institutions raise funds from families and companies and then employ them in the form of loans and investments in financial markets that benefit all economic activities and all economic agents for interest and profits, as well as many financial services.

3.4. Public administrations

One of the main tasks of public administrations is to provide administrative services to citizens and other economic agents, where services are often provided free of charge or in amounts almost free of charge that do not even cover their cost. Public administrations' income comes from compulsory deductions received; such as taxes, fees and compulsory social contributions, the State provides them in its general budgets. Public administrations are divided into several types: central public administrations; Ministries and Public Directorates, non-centralized local public administrations; provincial, municipal, state and local administrations.

3.5. Non-profit bodies

These bodies are diverse, all of which aim to provide services to certain groups of families free of charge or at prices far below their cost. These bodies' resources come mainly from voluntary contributions from families and institutions, state subsidies and members' contributions, and from income from their property

(grants and financial employment income). These include trade unions, houses of worship, sports associations.