

# Critical Reflection on Selected Issues Connected with Economic Terminology

Jiří Kraft \*

Technical University of Liberec, Faculty of Economics, Department  
of Economics, Liberec, Czech Republic, \* Jiri.Kraft@tul.cz

## Abstract

Clear and unambiguous categories and concepts defined in accordance with generally accepted epistemological principles are some of the cornerstones of each scientific discipline. The objective of this paper is to critically highlight selected problems related to the creation and use of categories and concepts and their symbols in economics. The paper describes in examples the inconsistent use of symbols (the income example), the unsystematic use of concepts (the labour force example) and, in particular, the creation and use of ambiguously defined categories or concepts in a situation where economic science already has an established concept for the reality concerned (the rent example). Adequate methods are chosen for an article of this type. The initial method is desk research, followed by analysis, deduction, induction and exploration. In addition to the actual critical description of the problems, an appropriate solution is proposed to the problem presented in each example. However, the paper also makes references to links with other economic disciplines and the current socio-economic reality. The purpose of the presented critical reflection on selected issues related to economic terminology is, on the one hand, to achieve greater understanding in scientific communication and, on the other hand, to facilitate educational impact, but also to find a common ground between academics and practitioners to the extent that social practice is intertwined with economic theory.

## Key Words

*economic concepts, inconsistency of symbols, inconsistent use of concepts, creation of misleading concepts*

**JEL Classification: A23, B49**

## Introduction

Each scientific discipline, economics included, relies on its own terminology. To achieve its goal of proving the conclusions reached, science definitely needs a set of unambiguous terms. Proving the validity of one's findings is as important as defining the object of one's investigation, both of them being ultimately the things that make science what it really is.

As a science, economics has existed since the eighteenth century, or since the emergence of the classical school of economics, leaving aside mercantilism that has existed since the sixteenth century. Indeed, it was mercantilism where terminology was identified as one of its weaknesses. The classical school of economics has made great strides in this respect, and yet some of the weaknesses have persisted until today, partly due to the incorrect use of terms and categories and the inconsistency of the symbols in economics.

In general, one can agree with the views of Nobel Prize-winning economist P. Krugman concerning the lamentable state of economic science, but also with the view of J. Cassidy highlighting the use of erroneous starting points based on outdated economic ideas as

mentioned by Daňhel and Ducháčková (2010, 596), who at once also consider, in the context of the paradigms of economics, the suggestive Hayekian question *"...whether it might be necessary to go back to the basics in economics. Back to the degree of determinism of the contemporary world, the elementary philosophical and methodological categories, starting with the most fundamental irrefutable Cartesian axiom: 'I think therefore I am'."*

Change manifests itself in all aspects of economy, and, by inference, economics. An evolutionary approach can reveal where the change comes from, how it occurs, but also where it will lead (Witt, 2003). About forty years ago, Hirschman (1985) critiqued the principle of parsimony in the economic approach to the description of (not only) economic processes and, it can be added, also of basic economic categories. The lack of consistency in the use of economic terms is also criticised by Špalek (2011) in the field of public economics.

Drawing upon Aristotle, category is the highest order of concepts. At the same time, this view does not contradict Kant's opinion, according to which categories represent certain classes under which concepts can be subsumed. The lasting validity of the need for correctness in the creation and use of terms in the context of epistemology and scientific communication is confirmed by Ochrana (2010), who calls for adherence to principles in the creation and use of terms and draws attention to possible ways of defining terms.

The aim of the paper is (i) to highlight the inconsistency of the use of symbols in modern economic theory and to propose a solution; still more importantly, (ii) the paper also seeks to point out the inappropriateness of the used terminology that does not fit into the terminological system of modern economic theory, and to propose a solution; but most importantly, (iii) the aim of the paper is to critique the inappropriate use of non-established terms, or economic categories without clearly defined content, which are preferred over established and well-defined terms, and to propose a solution to the problem.

## 1. Methods of Research

Desk research was chosen as the initial research method as it is based on the examination of existing sources with a view to gathering data to develop the line of thought under consideration. The advantage of this method is its considerable efficiency, especially given the necessary knowledge of the research question raised as formulated in the aim of the paper.

The structure of the paper's aim also accentuates the progression from the simple to the complex. The analysis of the creation and use of concepts and categories in economics, using a deductive approach, led to the selection of three examples in which problematic symbols and terminological issues were identified. Attention was also devoted to relevant links with other economic disciplines as well as the current socio-economic reality.

Explanation is used as a method in describing examples related to aims (ii) and (iii). Inductive reasoning was applied in the formulation of solutions to the problems raised.

## 2. Results of the Research

This part describes examples of the criticised suboptimalities, along with the problems they may cause, especially in scientific communication, but not only in it, and proposes solutions to these problems.

### **The problem of inconsistency of the symbols used.**

Income, a quantity of fundamental importance in economics as a whole, used in macroeconomics and microeconomics alike, but also in other economic disciplines such as global economics. Should income be designated by Y (macroeconomics) or i (microeconomics).

This may seem like a pseudo-problem, but it is not. The global economy is based on macroeconomics; see, for instance, gross domestic product and its derivatives, or on consumption functions modified by foreign trade in open economies. On the other hand, the same global economy deals with the reality of international market structures generating income, a matter that is clearly microeconomic in its nature. The use of different symbols for one and the same economic phenomenon in the same discipline causes confusion.

Would it not be possible to use the same symbols for the same thing in both of the mutually inseparable parts of economics? Or are we going to have to wait another hundred years for the discrepancy to be removed, starting from the time when economics was no longer seen as macroeconomics alone, but merged with microeconomics to create the single economics? The answer to the question is clear. It is irrelevant what symbol we use for income, but there should only be one. The solution is therefore obvious.

### **Concepts in the terminological system of modern economic science.**

One sample case that deserves to be mentioned here is the concept of labour force. The concept has a rich history, going back to the classical school of economics associated with Adam Smith and his seminal work *An Inquiry into the Nature and Causes of the Wealth of Nations* of 1776 (Smith, 2002), i. e. the 18th century.

Later on, the concept of labour force was central to the economics of Karl Marx, who took it from the classical school of economics and developed it into his own concept of the so-called exploitation of workers by “evil capitalists”. In its entirety, it was based on the fact that the wages of workers are determined by the price of the products they must consume and they have nothing to do with the price of whatever it is they produce for the company, which belongs to the entrepreneur, not them. Yet the difference between the prices of the necessary products whose consumption makes life possible for the workers and the prices of the products that the workers have created by their work (of course, after the other input costs are deducted) is an amount that belongs not to the employees—the workers—but to the entrepreneur, which Marx called the exploitation of workers. According to Marx, labour force is a person’s ability to work.

In fact, the concept of labour force does not fit into modern economics at all, as it has no equivalent in the two other sources of wealth, namely capital and land.<sup>1</sup> Yet, both Czech and foreign authors incorrectly consider the terms worker and labour power as synonyms (Bajgar and Janský, 2015; Wirojanagud et al, 2007). The equivalent of the concepts of capital and land is that of labour and those who do the labour are workers, not labour force.

Would any of us workers like to be referred to as labour force? Probably not; after all, we are human beings. So why do we do it? Is it out of nostalgia for the past? Whatever the reason is, the use of the term is inconsistent with other terms, and therefore incorrect in modern economics. The obvious recommendation is therefore to use the term worker consistently, just like the terms capital and land.

### **Creation and use of ambiguously defined terms.**

But perhaps even more significant problems arise when new ambiguously defined terms and categories are invented and when terms are used that have been introduced in the past and no longer fit integrally into modern economics.

Such concepts include “windfall profit”. The very economic phenomenon was introduced solely for taxation purposes. As a term, windfall profit is not clearly defined. Let us ask ourselves a couple of questions: Does any profit that exceeds the average profit per unit of capital invested qualify as windfall profit? Is it a cross-industry phenomenon or does it exist only within any one industry? Is there a difference between windfall and unexpected profits? Of course, the list of such questions could go on and on, but what is certain is that none of them has been satisfactorily answered.

What the economic theory has clarified with regard to this problem is that profit arises as the difference between total income and total cost, with income being tied to the price of the product and the quantity produced. Proceeding on this footing, we will come to realise that the aforementioned price of the product and pricing constitute two extremely important concepts. At the same time, a dividing line must be drawn between production in manufacturing and in agriculture.

As a rule, the price of manufacturing products is made up of costs and normal profit. The question is what cost we are talking about. Is it the cost of producers who use the most obsolete technology, i.e. the highest cost per unit of output that we still need, or is it the cost of those producers who use the most advanced technology and achieve the lowest cost per unit? In manufacturing, it is neither of the two. There, it is the cost of the majority of producers producing the product under consideration. This works as long as supply is greater than demand, which naturally rectifies price increases by producers. The newly used phenomenon of windfall profit and the attempt to tax it are now mainly associated with electric power generation.

Let us ask ourselves whether it is precisely by factoring in the costs of most producers that the price is created, even for a product as important as electric power, which is

---

<sup>1</sup> Financial management sometimes operates with the term capital labour, but its content is different. Essentially, it denotes the scope of capital resources—both internal and external—that a firm has at its disposal, which cover its assets used for business. But that is a different matter altogether.

currently perceived as one of the sources of the price level growth. The answer is: no. Here, the price is based on the highest cost, i. e. the cost of generating electric power from gas-fired power stations, using a medium that currently presents by far the most expensive alternative per megawatt hour of electric power generated, compared to coal-fired or nuclear power stations. The approach applied here is clearly different to that used in the manufacturing industry in general, for example in the car manufacturing industry, where the customer does not care what medium is used to heat the assembly shop and is therefore unwilling to accept a price of the car that would factor in the fact that some of the car manufacturers' shops are gas-heated while other use cheaper sources of energy. The very fact has no bearing on the selling price of the car. After all, we live in a competitive environment where supply exceeds demand, and therefore an overpriced car is unsaleable.

Is it common to base pricing on the costs of the worst, or the costliest producers, as is now the case with electric power generation? The answer is: yes. But it only applies to pricing in the agricultural and mining industries. That is where the rent system works. Essentially, the price of agricultural products is based on the amount of agricultural production needed for the economy, which includes producers operating land with outstanding soil properties, located near their selling markets, but also those with less fertile land and long distances to the relevant markets. And it is with this link between the quantity of products needed and the operators that still must produce output in relation to the level of demand that the threshold of costs acceptable for the customer arises. It follows from the above that the basis for the price of agricultural products is the cost of those producers who farm on the worst and most distant land, but whose output is still necessary to meet demand. The others show lower costs but sell at the same price, and therefore turn a profit that is greater thanks to the lower costs. The difference is called rent. (There are several kinds of rents, but that is irrelevant here.)

The way electric power is generated in EU countries also gives rise to such rents. It could come as no surprise that with the current shortage of electricity in the EU—to which France has contributed significantly by neglecting maintenance in its nuclear power stations, and which Germany has exacerbated with its experiments in replacing nuclear reactors with modern clean energy—power generation in gas-fired power stations must go on because we simply need it. Hopefully, this will be the case for a limited period of time only. However, it is a good idea to call the portion of profits achieved by other power generators, for example those operating Czech coal and nuclear power stations, for what they clearly are: rents.

One cannot help but ask why the rent phenomenon is associated with electricity—a product of the manufacturing industry. The answer is not that complicated. It is electricity that has gradually become as important to people's lives as food or other agricultural products mentioned earlier. We cannot exist without it. Moreover, supply either does not at all, or only slightly exceeds demand, and if so then only at certain intervals. Still, Europe's dominant economy, Germany, which intends to shut down the rest of its nuclear power stations in the spring and all its coal-fired power stations in the west of the country, certainly cannot dispense with gas-fired power stations. This is why the electricity pricing mechanism can be considered logical and formally quite consistent with an economic system that accepts the rent phenomenon. Nevertheless, the situation needs to be addressed.

Our tax system responds to the situation with a windfall profit tax<sup>1</sup>. This can be seen as a logical step and we could be indifferent to the fact that it is referred to as “windfall profit tax” as opposed to “rent tax”, which would be the proper designation as explained earlier. However, the problem is that the measure is inconsistent in that it entirely fails to account for the EU tax system to such an extent that it cannot be ruled out that the whole concept will end up in a court that could order that the funds levied in this way be returned. This would be in no way surprising since, for example, large agricultural enterprises, which benefit from exactly the same rent (or, windfall profit), are not obliged to pay any windfall tax, even though the increase in the prices of food may be even more painful for consumers than the rise in energy prices. We should therefore consider introducing, within the single EU tax system—which is uniform at least when it comes to the structure, if not specific rates—a tax on rents, regardless of the sector of the economy and regardless of the EU Member State. While not hurting electricity companies, it would help our massive deficit-ridden state budgets, without giving rise to the threat of having to pay back the taxes collected on the so-called windfall profits.

In view of the terminological basis, it is worth adding on the subject of the term “rent” that its association with land is not exclusive. The term “rent” can also be used for income that exceeds the expected income or, more precisely, the difference between the two, i.e. the unexpected and expected income. It turns out that explaining the phenomenon of windfall profit through the concept of rent is not a problem even in this sense.

### 3. Discussion

It is undoubtedly a desirable venture to unify the symbols used in economics as a whole, as exemplified on the term “income”. On the other hand, the unification would mean that specific economic disciplines could not hold on to their original approaches, for instance when determining the optimal equilibrium. Let us recall in this context how equilibrium in the global economy was expressed through the interaction of supply curves in contrast to the more usual interaction of supply and demand in micro- and macroeconomics. There is nothing wrong with such a difference, unlike the various terms used for income.

As for terminology when it comes to concepts and categories, two problems emerge. The first problem, exemplified here on the concept of labour force, is the use of an outdated concept, a concept that belongs to the economic school of the past, which does not fit in with current reality. The second problem, exemplified here on windfall profit, is the creation or use of ambiguously defined categories. Yet, historical schools of economics already have another perfectly defined term for the economic reality that is being referred to here (in this case, it is the term “rent”). The newly coined category then becomes redundant, if not confusing in the sense that it hinders the correct understanding of the economic reality.

On the other hand, however, the tax on rent needs to be well thought through, since taxing rents could lead to further increases in the prices of the already expensive agricultural

---

<sup>1</sup> Let us recall that this concept has a history of its own. The Crude Oil Windfall Profit Tax Act was passed in the USA in 1980. It is incorrect to shorten the original English term to “windfall tax”, as is often the case in this country, instead of using the full term “windfall profit tax”.

products. It appears that there are simply no simple solutions here. So let them at least be legally unobjectionable.

Final remark: On 21 March 2023, ČEZ Group announced a record net profit of CZK 80 billion for 2022, compared to CZK 10 billion in 2021 and CZK 5 billion the year before (Kratochvíl, 2023).

## Conclusion

No scientific discipline can dispense with an original subject of its research, its own apparatus of symbols, concepts and categories, and conclusions of investigation that it can prove and defend. It is therefore a major problem for any scientific discipline, economics included, if it creates confusion by using inconsistent symbols for the same economic concept or category. The problem then also impacts any derived disciplines that base their research on the underlying disciplines.

Every discipline evolves over time, and economics evolves in a very turbulent manner. Certain concepts that had their content clearly defined and which could be used in the past to prove something have become obsolete in modern economics and they no longer fit into the modern conceptual and categorical apparatus at all. The use of such concepts and categories must be abandoned for the sake of a correct understanding of the results of scientific research.

The opposite problem is creating new concepts and categories, even in economics that have no clearly defined content or whose definitions vary, at times to an extent that they contradict one another, in a situation where there already is a clearly defined concept from the past capturing the very economic reality, which has not been overcome by economic development. In this context, it is clear that such a term-coining practice can cause significantly more harm than good and should be rejected.

Under the current state of affairs, it seems highly desirable that economists and researchers focus their attention on this problem and that those experts who are concerned about economic terminology are brought together with a view to remedying the matter.

## References

- BAJGAR, M. and P. JANSKÝ. (2015). Skutečná kupní síla v krajích České republiky: zohlednění regionální cenové hladiny a struktury pracovní síly. [Purchasing Power in the Regions: Reflecting Price Levels and Employment Structures]. *Politická ekonomie*, **63**(7): 860-876. <https://doi.org/10.18267/j.polek.1039>
- DAŇHEL, J. and E. DUCHÁČKOVÁ. (2010). Problémy obecné metodologie věd ovlivňují neuspokojivý stav ekonomické vědy. [How Common Methodology Problems Affect the Unsatisfactory Status of Economic Science]. *Politická ekonomie*, 2010, **58**(5): 596-607. <https://doi.org/10.18267/j.polek.749>
- HIRSCHMAN, A. O. (1985). Against Parsimony: Three Easy Ways of Complicating some Categories of Economic Discourse. *Economics & Philosophy*, **1**(1): 7-21. <https://doi.org/10.1017/S0266267100001863>

- KRATOCHVÍL, L. (2023). ČEZ loni zvýšil zisk osminásobně na rekord, mimořádná daň na něj dopadne až letos. [CEZ Increased its Profit Eightfold to a Record Last Year, the Extraordinary Willfall Tax on it only this Year]. In: *Finance.cz* [online]. 21.3.2023 [cit. 2023-03-24]. Available at: Rekordní zisk ČEZ za rok 2022 | Finance.cz
- OCHRANA, F. (2010). *Metodologie vědy. Úvod do problému*. [Methodology of Science. Introduction to the Problem.] Univerzita Karlova: Karolinum. 156 pp. ISBN 978-80-246-1609-4.
- SMITH, A. (2002). *Pojednání o podstatě a původu bohatství národů*. [An Inquiry into the Nature and Causes of the Wealth of Nations]. Praha: Liberální institut. 986 pp. ISBN 80-86389-15-4.
- ŠPALEK, J. (2011). *Veřejné statky. Teorie a experiment*. [Public goods. Theory and experiment]. Praha: C.H.Beck. 204 pp. ISBN 978-80-7400-353-0.
- WIROJANAGUD, P., E. S. GEL, J. W. FOWLER and R. CARDY. (2007). Modelling Inherent Worker Differences for Workforce Planning. *International Journal of Production Research*, **45**(3): 525-553. <https://doi.org/10.1080/00207540600792242>.  
<https://doi.org/10.1080/00207540600792242>
- WITT, U. (2003). *The Evolving Economy. Essays on the Evolutionary Approach to Economics*. Edward Elgar Publishing. Elgaronline. 416 pp. <https://doi.org/10.4337/9781035304646>