COURSE GUIDE

POL762 FOUNDATIONS OF POLITICAL ECONOMY

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POL762: Foundations of Political Economy (2 Credit Units)

Political economy is an interesting field of study in the social sciences. It dates back to the works of influential thinkers such as Adam Smith, David Ricardo, Karl Marx, among others from the 17th and the 19th centuries that were concerned with the workings of the capitalist system. In the contemporary world system, political economy has multidisciplinary in nature that covers issues of wealth and power; hence it is at the intersections of politics, economics and other disciplines such as international relations, sociology among others. This course therefore designed to examine the politics - economics nexus, explain the perspectives of the various schools thought, with particular emphasis on the classical, Marxian, neo-classical, and the Keynesian theories. Since the state forms the nucleus of political economy discuss, the character of the state shall be discussed particularly as it relates to class and modes of production welfare and distribution, class struggle, and class antagonism. It explores how economic factors affect political institutions and how political action affects economic behaviour with emphasis on the relations between business and labour, economic policy choices, and the impact of international trade.

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INTRODUCTION

POL762 – Foundations of Political Economy is a one semester course designed for Postgraduate Diploma (PGD) Political Science students. It is a two unit credit course designed to enable you have a deep view of the salient issues in Political Economy. The course begins with a brief introductory module, which will help you to have a good understanding of the issues at stake in the study of political economy. Such issues include; nexus between economics and politics; the perspectives of the various schools thought, with particular emphasis on the classical, Marxian, neo-classical, and the Keynesian theories. Since the state forms the nucleus of political economy discuss, the character of the state shall be discussed particularly as it relates to class and modes of production welfare and distribution, class struggle, and class antagonism. It explores how economic factors affect political institutions and how political action affects economic behaviour with emphasis on the relations between business and labour, economic policy choices, and the impact of international trade.

COURSE AIM AND OBJECTIVES

The primary aim of this course is to provide PGD students of Political Science with a comprehensive knowledge of Political Economy.

However, the course specific objectives include enabling you to:

- have a working knowledge of political economy by understanding the nexus between politics and economics;
- understand the perspectives in political economy notably the classical, Marxism, neo classical, and Keynesian;
- analyse the modes of production such as primitive communal, slave owing, feudal, capitalist and communist modes of production;
- appraise the implications of government's economic policy choices, and the impacts of international trade;
- examine the political economy of Nigeria

The specific objectives of each study unit can be found at the beginning and you can make references to it while studying. It is necessary and helpful for you to check at the end of the unit, if your progress is consistent with the stated objectives and if you can conveniently answer the self-assessment exercises. The overall objectives of the course will be achieved, if you diligently study and complete all the units in this course.

WORKING THROUGH THE COURSE

To complete the course, you are required to read the study units and other related materials. You will also need to undertake practical exercises for which you need a pen, a note-book and other materials that will be listed in this guide. The exercises are to aid you in understanding the concepts being presented. At the end of each unit, you will be required to submit written assignment for assessment purposes.

At the end of the course, you will be expected to write a final examination.

THE COURSE MATERIAL

In this course, as in all other courses, the major components you will find are as follows:

- Course Guide
- Study Units
- Textbooks
- Assignments

STUDY UNITS

There are 16 study units in this course. They are:

MODULE 1 THE SUBJECT MATTER OF POLITICAL ECONOMY

Unit 1	Conceptualization of Political Economy
Unit 2	Historical Evolution of Political Economy
Unit 3	Basic Concepts of Political Economy
Unit 4	The Economics and Political Economy Nexus

MODULE 2 PERSPECTIVES OF POLITICAL ECONOMY

Unit 1	The Mercantilist Perspective of Political Economy
Unit 2	The Liberal Perspective of Political Economy
Unit 3	The Marxists Perspective of Political Economy
Unit 4	The Keynesian Perspective of Political Economy

MODULE 3 MODES OF PRODUCTION

Unit 1	Primitive Communalism
Unit 2	Pre-Capitalist Class Divided Modes of Production
Unit 3	The Capitalist Mode of Production

Unit 4 Communist Mode of Production

MODULE 4: CRITICAL ISSUES IN POLITICAL ECONOMY

Unit 1: Colonialism, Neo-Colonialism, and Imperialism Unit 2: Globalisation, and Multinational Corporations

Unit 3: Bretton Woods System

Unit 4: International Economic Relations

As you can observe, the course begins with the basics and expands into a more elaborate, complex and detailed form. All you need to do is to follow the instructions as provided in each unit. In addition, some self-assessment exercises have been provided with which you can test your progress with the text and determine if your study is fulfilling the stated objectives. Tutor-marked assignments have also been provided to aid your study. All these will assist you to be able to fully grasp knowledge of foundations of political economy.

TEXTBOOKS AND REFERENCES

At the end of each unit, you will find a list of relevant reference materials which you may yourself wish to consult as the need arises, even though I have made efforts to provide you with the most important information you need to pass this course. However, I would encourage you, as a second year student to cultivate the habit of consulting as many relevant materials as you are able to within the time available to you. In particular, be sure to consult whatever material you are advised to consult before attempting any exercise.

ASSESSMENT

Two types of assessment are involved in the course: the Self-Assessment Exercises (SAEs), and the Tutor-Marked Assessment (TMA) questions. Your answers to the SAEs are not meant to be submitted, but they are also important since they give you an opportunity to assess your own understanding of the course content. Tutor-Marked Assignments (TMAs) on the other hand are to be carefully answered and kept in your assignment file for submission and marking. This will count for 30% of your total score in the course.

Self-assessment exercises are also provided in each unit. The exercises should help you to evaluate your understanding of the material so far. These are not to be submitted. You will find all answers to these within the units they are intended for.

FINAL EXAMINATION AND GRADING

There will be a final examination at the end of the course. The examination carries a total of 70% (per cent) of the total course grade. The examination will reflect the contents of what you have learnt and the self-assessments and tutor-marked assignments. You therefore need to revise your course materials beforehand.

COURSE MARKING SCHEME

The following table sets out how the actual course marking is broken down.

ASSESSMENT	MARKS	
Four assignments (the best four	Four assignments, each marked out of	
of all the assignments submitted	10%, but highest scoring three	
for marking)	selected, thus totaling 30%	
Final Examination	70% of overall course score	
Total	100% of course score	

COURSE OVERVIEW PRESENTATION SCHEME

Units	Title of Work	Week Activity	Assignment (End-of-
		•	Unit)
Course	Foundations of Political		
Guide	Economy		
Module	The Subject Matter of Political Ec	onomy	
1			
Unit 1	Conceptualization of Political Economy	Week 1	Assignment 1
Unit 2	Historical Evolution of Political Economy	Week 2	Assignment 1
Unit 3	Basic Concepts of Political Economy	Week 3	Assignment 1
Unit 4	The Economics and Political Economy Nexus	Week 4	Assignment 1
Module 2	Perspectives of Political Economy		
Unit 1	The Mercantilist Perspective of Political Economy	Week 5	Assignment 1
Unit 2	The Liberal Perspective of Political Economy	Week 6	Assignment 1
Unit 3	The Marxists Perspective of Political Economy	Week 7	Assignment 1

Unit 4	The Keynesian Perspective of Political Economy	Week 8	Assignment 1
Module 3	Modes of Production		
Unit 1	Primitive Communalism	Week 9	Assignment 1
Unit 2	Pre-Capitalist Class Divided Modes of Production	Week 10	Assignment 1
Unit 3	The Capitalist Mode of Production	Week 11	Assignment 1
Unit 4	Communist Mode of Production	Week 12	Assignment 1
Module 4	Critical Issues in Political Economy		
Unit 1	Colonialism, Neo-Colonialism, and Imperialism	Week 13	Assignment 1
Unit 2	Globalisation, and Multinational Corporations	Week 14	Assignment 1
Unit 3	Bretton Woods System	Week 15	Assignment 1
Unit 4	International Economic Relations	Week 16	Assignment 1

WHAT YOU WILL NEED FOR THE COURSE

This course builds on what you have learnt at the undergraduate Level. It will be helpful if you try to review what you studied earlier. Second, you may need to purchase one or two texts recommended as important for your mastery of the course content. You need quality time in a study friendly environment every week. If you are computer-literate (which ideally you should be), you should be prepared to visit recommended websites. You should also cultivate the habit of visiting reputable physical libraries accessible to you.

TUTORS AND TUTORIALS

There are 15 hours of tutorials provided in support of the course. You will be notified of the dates and location of these tutorials, together with the name and phone number of your tutor as soon as you are allocated a tutorial group. Your tutor will mark and comment on your assignments, and keep a close watch on your progress. Be sure to send in your tutor marked assignments promptly, and feel free to contact your tutor in case of any difficulty with your self-assessment exercise, tutor-marked assignment or the grading of an assignment. In any case, you are advised

to attend the tutorials regularly and punctually. Always take a list of such prepared questions to the tutorials and participate actively in the discussions.

ASSESSMENT EXERCISES

There are two aspects to the assessment of this course. First is the Tutor-Marked Assignments; second is a written examination. In handling these assignments, you are expected to apply the information, knowledge and experience acquired during the course. The tutor-marked assignments are now being done online. Ensure that you register all your courses so that you can have easy access to the online assignments. Your score in the online assignments will account for 30 per cent of your total coursework. At the end of the course, you will need to sit for a final examination. This examination will account for the other 70 per cent of your total course mark.

TUTOR-MARKED ASSIGNMENTS (TMAs)

Usually, there are four online tutor-marked assignments in this course. Each assignment will be marked over ten percent. The best three (that is the highest three of the 10 marks) will be counted. This implies that the total mark for the best three assignments will constitute 30% of your total course work. You will be able to complete your online assignments successfully from the information and materials contained in your references, reading and study units.

FINAL EXAMINATION AND GRADING

The final examination for POL 762: Foundations of Political Economy will be of two hours duration and have a value of 70% of the total course grade. The examination will consist of multiple choice and fill-in-thegaps questions which will reflect the practice exercises and tutor-marked assignments you have previously encountered. All areas of the course will be assessed. It is important that you use adequate time to revise the entire course. You may find it useful to review your tutor-marked assignments before the examination. The final examination covers information from all aspects of the course.

HOW TO GET THE MOST FROM THIS COURSE

• There are 16 units in this course. You are to spend one week in each unit. In distance learning, the study units replace the university lecture. This is one of the great advantages of distance learning; you can read and work through specially designed study materials at your own pace, and at a time and place that suites you

best. Think of it as reading the lecture instead of listening to the lecturer. In the same way a lecturer might give you some reading to do. The study units tell you when to read and which are your text materials or recommended books. You are provided exercises to do at appropriate points, just as a lecturer might give you in a class exercise.

- Each of the study units follows a common format. The first item is an introduction to the subject matter of the unit, and how a particular unit is integrated with other units and the course as a whole. Next to this is a set of learning outcomes. These outcomes let you know what you should be able to do, by the time you have completed the unit. These learning outcomes are meant to guide your study. The moment a unit is finished, you must go back and check whether you have achieved the outcomes. If this is made a habit, then you will significantly improve your chance of passing the course.
- The main body of the unit guides you through the required reading from other sources. This will usually be either from your reference or from a reading section.
- The following is a practical strategy for working through the course. If you run into any trouble, telephone your tutor or visit the study centre nearest to you. Remember that your tutor's job is to help you. When you need assistance, do not hesitate to call and ask your tutor to provide it.
- Read this course guide thoroughly. It is your first assignment.
- Organise a study schedule Design a 'Course Overview' to guide you through the course. Note the time you are expected to spend on each unit and how the assignments relate to the units.
- Important information; e.g. details of your tutorials and the date of the first day of the semester is available at the study centre.
- You need to gather all the information into one place, such as your diary or a wall calendar. Whatever method you choose to use, you should decide on and write in your own dates and schedule of work for each unit.
- Once you have created your own study schedule, do everything to stay faithful to it.
- The major reason that students fail is that they get behind in their coursework. If you get into difficulties with your schedule, please

let your tutor or course coordinator know before it is too late for help.

- Turn to Unit 1, and read the introduction and the study outcomes for the unit.
- Assemble the study materials. You will need your references for the unit you are studying at any point in time.
- As you work through the unit, you will know what sources to consult for further information.
- Visit your study centre whenever you need up-to-date information.
- Well before the relevant online TMA due dates, visit your study centre for relevant information and updates. Keep in mind that you will learn a lot by doing the assignment carefully. They have been designed to help you meet the objectives of the course and, therefore, will help you pass the examination.
- Review the objectives for each study unit to confirm that you have achieved them. If you feel unsure about any of the objectives, review the study materials or consult your tutor. When you are confident that you have achieved a unit's objectives, you can start on the next unit. Proceed unit by unit through the course and try to space your study so that you can keep yourself on schedule.
- After completing the last unit, review the course and prepare yourself for the final examination. Check that you have achieved the unit objectives (listed at the beginning of each unit) and the course objectives (listed in the course guide).

CONCLUSION

This is a theory course but you will get the best out of it if you cultivate the habit of relating it to political issues in domestic and international arenas.

SUMMARY

'Foundations of Political Economy' introduces you to general understanding of the fundamentals of Political Economy. It is designed to enable you have a bird's eye view of the salient issues in Political Economy. All the basic course materials that you need to successfully complete the course are provided. At the end, you will be able to:

- have a working knowledge of political economy by understanding the nexus between politics and economics;
- understand the perspectives in political economy notably liberalism, Marxism and neo Marxism;
- analyse the modes of production such as primitive communal, slave owing, feudal, capitalist and communist modes of production;
 - appraise primitive accumulation of capital in the light of the Marxists discourse

MAIN COURSE

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UNIT 1: CONCEPTUALIZATION OF POLITICAL ECONOMY

Unit Structure

- 1.1 Introduction
- 1.2 Learning Outcomes
- 1.3 Meaning of Political Economy
 - 1.3.1 Liberal Perspective
 - 1.3.2 Radical Perspective
- 1.4 Summary
- 1.5 References/Further Readings/Web Sources
- 1.6 Possible Answers to Self Assessment Exercises



1.1 Introduction

Political economy is an interesting aspect of social science. Its relevance emanates from its multidisciplinary approach. The understanding of the dynamics of political economy is essential for the overall appreciation of the discipline of political science. The views of scholars and practitioners from different perspective shall be presented in this unit.



1.2 Learning Outcomes

At the end of this unit, you will be able to:

- Define political economy from different perspectives;
- Identify the importance of the study of political economy;
- Analyze the dynamics of modern political economy; and
- Apply the knowledge of the understanding of political economy to solving practical societal problem.



3 Meaning of Political Economy

Political economy is a critical aspect of the social sciences. Its dynamism emanates from the growing importance attached to the field of study and its relevance in the understanding of human society. Political economy is not different from any other concept in the social sciences that is not amenable to any single and universally acceptable definition. In the nutshell, Political economy is an interdisciplinary branch of the social

sciences that focuses on the interrelationships among individuals, governments, and public policy. Political economists study how economic theories such as capitalism, socialism, and communism work in the real world https://www.politicalscienceview.com/the-subject-matter-of-political-economy/ (Accessed 29/04/2022)

Generally, political economy combines the fields of politics and economics. It defines the interdependency between the state and the market. It is a combination of two terms 'political' and 'economy'. Balaam and Veseth (2022) assert that political economy is a branch "of social science that studies the relationships between individuals and society and between markets and the state, using a diverse set of tools and methods drawn largely from economics, political science, and sociology".

Frieden, Lake and Broz (2017) for instance defined political economy by defining the concepts of economy and politics separately before combining them. They opine that "the economy can be defined as the system of producing, distributing, and using wealth; politics is the struggle between actors with divergent interests to make collective decisions, whether inside or outside of formal governments" (Frieden, Lake and Broz, 2017:1). It is the "study of production and trade and their relations with law, custom and government; and with the distribution of national income and wealth" (https://en.wikipedia.org/wiki/Political economy)

Some scholars refer primarily to the study of the political basis of economic actions-the ways that government policies affect market operations. For others, the principal preoccupation is the economic basis of political action-the ways that economic forces mould government policies (Frieden, et al, and 2017:1). In reality, politics and markets are in a constant state of mutual interaction. Political economy also centers on the production of material wealth and the mode of production, that is, it studies production and the basis of society from the point of view of the economic relations between people in the production process. It is the study of production and trade and their relations with law, custom and government; and with the distribution of national income and wealth. It also refers to the branch of social science that studies the relationships between individuals and society and between markets and the state, using a diverse set of tools and methods drawn from economics, political science, and sociology. In the views of Lenin, political economy deals not just with production, but the social relations of men in production and the social system of production.

Political economy therefore seeks to explain the dynamics of the state – market nexus causes of the asymmetrical relations between developed and

developing nations in the international division of labour and exchange. It locates the root causes of third world underdevelopment on issues of imperialism, colonialism and neocolonialism on the one hand and also draws from the internal contradictions peculiar to the third world countries as fundamental causes of their underdevelopment. Interestingly, both bourgeois and Marxian political economy proffer separate approaches to emancipation and development. Finally, knowledge of political economy helps the oppressed and exploited to understand their reality and ways out of their contradictions.

1.3.1 The Liberal Perspective

The liberal perspective to the understanding of political began with the conception of Adam Smith on the meaning of political economy. Adam Smith was followed by the like of David Ricardo, who proposed the doctrine of comparative advantage. The central thrust of the liberal understanding of political economy is on the assertion that "the purpose of economic activity was to enrich individuals, not to enhance the state's power" (Oatley, 2019:34).

The liberal conception of political economy stipulates that the state is not superior to other institutions. That is not to say that the state is an inferior institution. However, the state will generally be inferior to other institutions in the respective fields of special competence of those other institutions. The state is inferior to the church for the purpose of defining moral values or the conduct of ecclesiastical government. In the state — market relationship, which forms the nucleus of political economy, the liberals assert that the idea is that there is such a thing as a limited area of power and authority for the state — a delimitation of its proper sphere, beyond which, it is improper for the state to trespass. The focus is on the limit of the state in contrast with the limit of the individual.

1.3.2 The Radical Conception of Political Economy

The understanding of the radical perception of the concept of political economy emanates from the discussion of the production (economic) relations between people, the relationship of various social classes to political power and the interplay of politics and economy in the determination of power relations within the comity of nations. These includes:-

- i. The forms of ownership of the means of production;
- ii. The position of the various classes and social groups in production and their interrelations;
- iii. The forms and socio-political implications of the distribution of material wealth; and

iv. The interplay of politics and economy in the international division of labour and exchange

From this, it is obvious that political economy is the science of the development of social production, that is, economic relations between people. It clarifies the laws governing production, distribution, exchange and consumption of the material wealth in human society at various stages of its development. Political economy therefore takes into account the relationship between the productive forces and relations of production.

Political economy therefore is an aspect of political science that deals with the economic interrelations between individuals, social classes or nations with specific focus on the vital aspects of production, distribution and consumption of wealth. It is a historical science, which shows how society develops from lower to higher stages and how the entire course of historical development prepares the objective necessity of the triumph of the communist mode of production (Ryndina, Chernikov and Khudohormov, 1980).

Political economist of the Marxian tradition, argue that bourgeois economists were able to analyse reality more or less objectively while the bourgeoisie was still a rising class, and the development of capitalism was in the interest of social development. However, with the emergence of the working class consciousness as a counter orientation to continued exploitation of labour, bourgeois orientations and domination have steadily been called to question. The apparent clash of ideologies has led to the evolution of a truly scientific basis for political economy through the works of such scholars like Marx, Engel and Lenin.

These scholars applied the method of dialectical and historical materialism which presupposes:-

- i. Investigation of relations associated with material production and the process of their emergence and development across epochs, that is, historical;
- ii. Consideration of this process as an objective reality, that is, materialistic;
- iii. Revelation of the internal contradictions of development inherent in social production, that is, dialectical (Ryndina et al, 1980).

The radical scholars maintain that political economy provides the working class and all working people with knowledge of the laws governing the economic development of society and allows them to fulfill successfully the task facing them. It also shows the working people of all nations the reasons for their enslavement, poverty and deprivations. Specifically, it

shows that the oppression and impoverishment of the working class and all the working people depend on the arbitrary will of individual capitalist.

Self-Assessment Exercises 1

Attempt these exercises to measure what you have learnt so far. This should not take you more than 5 minutes.

- 1. The central argument of political economy is a situation where politics and markets are in a constant state of mutual _____
- A. Interaction
- B. Antagonism
- C. Conflict
- D. Cooperation
- 2. The tools and methods used by political economy are drawn largely from all the following disciplines except ____
- A. Economics
- B. Political Science
- C. Sociology
- D. Anatomy
- 3. The liberal conception of political economy stipulates that the state is not superior to other ____
- A. Institutions
- B. Governments
- C. Societies
- D. Non governmental organisations



1.4 Summary

Political economy studies the nexus between politics and economics or an interface between the state and the market. The state and the market cannot operate independent of each other. The dynamics and contradictions thrown up by such relationship informed the core concern of political economy. The liberal school viewed the state – market relationship from the point of view of limited state interference in the operation of the economy. In the Marxian parlance therefore, political economy focuses on human interaction with specific focus on the social relationships of production. It divides the society into social classes based on the economic capabilities of social actors and further offers explanations for the discrepancies in the international division of labour and exchange.



1.5 References/Further Readings

- Balaam, D. N. and Veseth, M. A. (2022, January 23). *political economy. Encyclopedia Britannica*. https://www.britannica.com/topic/political-economy 29/04/2022). (Accessed 29/04/2022).
- Frieden, A. J., Lake, A. D. & Broz, L. J. (2017). International political economy: Perspectives on global power and wealth. New York & London: W. W. Norton & Company.
- Ryndina, M.N.; Chernikov, G.P and Khudohormov, G.N. (1980). Fundamentals of Political Economy. Moscow: Progress Publishers.



Possible Answers to Self – Assessment Exercises (SAEs)

Answer to SAEs 1

1.	A
1.	А

2.3. D

 \boldsymbol{A}

UNIT 2 HISTORICAL EVOLUTION OF POLITICAL ECONOMY

Unit Structure

- 2.1 Introduction
- 2.2 Learning Outcomes
- 2.3 Historical Evolution of Political Economy
- 2.4 Summary
- 2.5 References/Further Readings/Web Sources
- 2.6 Possible Answers to Self-Assessment Exercises



2.1 Introduction

Political economy underwent a historical development to be able to arrive at its current state. Though it could be traced to the era of mercantilism, its major discourse emanated from the era of classical liberalism espoused by Adam Smith and the succeeding liberals. In fact, political economy emerged as a distinctive field of study as a response to the perceived inadequacies of mercantilism. It emphasis at that time is on the need to limit the influence of the government in the affairs of the economy. So, Adam Smith espoused the famous invisible hands policy, which as it were presupposes that the forces of demand and supply, generally referred to as the market forces should control the economy. This was a major breakthrough in the study of political economy. Succeeding liberals, such as David Richardo emphasised the principle of comparative advantage, which was tended towards specialisation with the view to effective maximisation of resource and optimum productivity. Today, political economy can be applied to virtually all areas of human endeavour.



2.2 Learning Outcomes

By the end of this unit, you will be able to:

- Discuss the historical development of political economy
- Analyse the implications of the historical development of political economy for People use instruments of labour to act on objects of labour i.e. on everything to which man's labour is applied. Man founds objects of labour in the environment, in nature itself. All the primary objects of labour-minerals, animals and plants, the the study of the subject matter

• Evaluate the circumstances that made political economy to emerge as a distinctive field of study.



Political economy is a very old subject of intellectual inquiry but a relatively young academic discipline (Balaam and Veseth 2022). It is a broad field of inquiry, with a tradition that reaches back before modern academic specialization and the separation of disciplines into departments (https://history.uchicago.edu/content/history-political-economy). analysis of political economy (in terms of the nature of state and market relations), both in practical terms and as moral philosophy, has been traced to Greek philosophers such as Plato and Aristotle as well as to the Scholastics and those who propounded a philosophy based on natural law. A critical development in the intellectual inquiry of political economy was the prominence in the 16th to the 18th century of the mercantilist school, which called for a strong role for the state in economic regulation (Balaam and Veseth 2022). The writings of the Scottish economist Sir James Steuart, 4th Baronet Denham, whose *Inquiry into the Principles of* Political Economy (1767) is considered the first systematic work in English on economics, and the policies of Jean-Baptiste Colbert (1619– 83), controller general to Louis XIV of France, epitomize mercantilism in theory and in practice, respectively (Encyclopedia Britannica, 2022).

Political economy emerged as a distinct field of study in the mid-18th century, largely as a reaction to mercantilism, when the Scottish philosophers Adam Smith (1723–90) and David Hume (1711–76) and the French economist François Quesnay (1694–1774) began to approach this study in systematic rather than piecemeal terms. They took a secular approach, refusing to explain the distribution of wealth and power in terms of God's will and instead appealing to political, economic, technological, natural, and social factors and the complex interactions between them. Indeed, Smith's landmark work—An Inquiry into the Nature and Causes of the Wealth of Nations (1776), which provided the first comprehensive system of political economy—conveys in its title the broad scope of early political economic analysis. Although the field itself was new, some of the ideas and approaches it drew upon were centuries old. It was influenced by the individualist orientation of the English political philosophers Thomas Hobbes (1588–1679) and John Locke (1632–1704), the Realpolitik of the Italian political theorist Niccolò Machiavelli (1469–1527), and the inductive method of scientific reasoning invented by the English philosopher Francis Bacon (1561–1626) (Encyclopedia Britannica, 2022).

According to Frieden, et al (2017:3), "until a century ago, virtually all thinkers concerned with understanding human society wrote about political economy. Many works by political economists in the 18th century emphasized the role of individuals over that of the state and generally attacked mercantilism. The scenario here occasioned the emergence of the liberal school of thought to "challenge the dominance of mercantilism in government circles" (Oatley, 2019:34). This is perhaps best illustrated by Smith's famous notion of the "invisible hand," in which he argued that state policies often were less effective in advancing social welfare than were the self-interested acts of individuals. Individuals intend to advance only their own welfare, Smith asserted, but in so doing they also advance the interests of society as if they were guided by an invisible hand. Arguments such as these gave credence to individual-centred analysis and policies to counter the state-centred theories of the mercantilists (Encyclopedia Britannica, 2022).

In the 19th century English political economist David Ricardo (1772– 1823) further developed Smith's ideas. His work—in particular his concept of comparative advantage, which posited that states should produce and export only those goods that they can generate at a lower cost than other nations and import those goods that other countries can produce more efficiently—extolled the benefits of free trade and was pivotal in undermining **British** mercantilism. About the same time the utilitarianism of Jeremy Bentham (1748–1832), James Mill (1773– 1836), and Mill's son John Stuart Mill (1806-73) fused together economic analysis with calls for the expansion of democracy (Encyclopedia Britannica, 2022).

Smith's notion of individual-centred analysis of political economy did not go unchallenged. The German American economist Friedrich List (1789–1846) developed a more-systematic analysis of mercantilism that contrasted his national system of political economy with what he termed Smith's "cosmopolitical" system, which treated issues as if national borders and interests did not exist. In the mid-19th century communist historian and economist Karl Marx (1818–83) proposed a class-based analysis of political economy that culminated in his massive treatise *Das Kapital*, the first volume of which was published in 1867 (Encyclopedia Britannica, 2022).

The holistic study of political economy that characterizes the works of Smith, List, Marx, and others of their time was gradually eclipsed in the late 19th century by a group of more narrowly focused and methodologically conventional disciplines, each of which sought to throw light on particular elements of society, inevitably at the expense of a broader view of social interactions. By 1890, when English neoclassical economist Alfred Marshall (1842–1924) published his textbook on

the *Principles of Economics*, political economy as a distinct academic field had been essentially replaced in universities by the separate disciplines of economics, sociology, political science, and international relations. Marshall explicitly separated his subject—economics or economic science—from political economy, implicitly privileging the former over the latter, an act that reflected the general academic trend toward specialization along methodological lines (Encyclopedia Britannica, 2022).

In the second half of the 20th century, as the social sciences (especially economics but also political science) became increasingly abstract, formal, and specialized in both focus and methodology, political economy was revived to provide a broader framework for understanding complex national and international problems and events. The field of political economy today encompasses several areas of study, including the politics of economic relations, domestic political and economic issues, the comparative study of political and economic systems, and international political economy. The emergence of international political economy, first within international relations and later as a distinct field of inquiry, marked the return of political economy to its roots as a holistic study of individuals, states, markets, and society (Encyclopedia Britannica, 2022).

As many analyses by political economists have revealed, in actual government decision making there is often a tension between economic and political objectives. Since the 1970s, for example, the relationship between the United States and China has been replete with difficulties for both countries. China consistently has sought integration into the world economy—an effort best illustrated by its successful campaign to join the World Trade Organization (WTO)—but has resisted domestic political liberalization. The United States often has supported China's economic reforms because they promised to increase trade between the two countries, but the U.S. government has been criticized by other countries and by some Americans for "rewarding" China with mostfavoured-nation trading status despite that country's poor record of upholding the basic human rights of its citizens. Likewise, China's government has faced domestic criticism not only from supporters from conservative Chinese Communist of democracy but also Party members who oppose further economic reforms. This example reflects the complex calculus involved as governments attempt to balance both their political and their economic interests and to ensure their own survival (Encyclopedia Britannica, 2022).

Self-Assessment Exercises 1

Attempt these exercises to measure what you have learnt so far. This should not take you more than 5 minutes.

- 1. The first proponent of liberal political economy is _____
- A. Abraham Lincoln
- B. Alfred Marshal
- C. Adam Smith
- D. David Ricardo
- 2. The liberal political economist that talked about comparative advantage is ____
- A. John Maynard Keynes
- B. Paul Samuelson
- C. James Mill
- D. David Ricardo
- 3. The ____ school called for a strong role for the state in economic regulation
- A. Mercantilist
- B. Liberal
- C. Neo Marxist
- D. Utilitarian



J2.4 Summary

In this unit, effort has been made to trace the historical development of poitical economy. It was submitted that political economy is as old as human history. The initial conception of political economy could be traced to the views of the mercantilists. The 18th century marked a watershed in the discussion and understanding of political economy following the emergence of the liberal school of thought led by Adam Smith, which challenged the mercantilist assumption of the economy. It advocated less state intervention in the affairs of the economy, instead the invisible hands should regulate the economy. This view was followed by other liberals. The Marxists on the hand advocated to radical approach, advocating that both the state and the private individuals represent different face of oppression and exploitation of the masses, hence the need for statelessness and the way out. The series of development in the evolutionary trend of political economy continued until the modern era, where it has assumed a multi-disciplinary and inter-disciplinary outlook. Virtually every area of the human society can be studied using the political economy framework.



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Possible Answers to Self – Assessment Exercises (SAEs)

Answer to SAEs 1

<i>1</i> .	C
2.	D

3. A

UNIT 3: BASIC CONCEPTS OF POLITICAL ECONOMY

Unit Structure

- 3.1 Introduction
- 3.2 Learning Outcomes
- 3.3 The Basic Concepts of Political Economy
- 3.4 Summary
- 3.5 References/Further Reading



3.1 Introduction

In this unit, the student is exposed to the basic concepts associated with political economy. A good understanding of these concepts is important at this early stage, as they will be continually utilized throughout the course. The onus lies on the student to appreciate and assimilate the meaning of these concepts and apply them frequently in the course of daily interactions. Some of those concepts are; labour, capital, social class, means of production, socio-economic formation, dialectics, surplus values, bourgeoisie and proletariat and so on. Although, some of these concepts are popular in the Marxian tradition, efforts shall be made to discuss the bourgeois variants and/or perception of them.



2.2 Learning Outcomes

At the end of this unit, you should be able to:

- Discuss the basic concepts used in political economy
- Analyse those concepts based con contemporary reality
- Apply the concepts to their daily life activities



.3 Basic Concepts in Political Economy

3.3.1. Labour

This is conscious and purposeful activity of people to produce material wealth. In the labour process, people act on nature in order to adapt it to their own requirements. Labour is eternal to humankind and can be skilled or unskilled. As Theocarakis (2010) rightly notes, labour assumed a

central role in Adam Smith, but it was with David Ricardo that a fully blown labour theory of value was achieved. Marx gave the concept its philosophical dimension, tying it to a critique of classical political economy. According to Marx, "Labour is, in the first place, a process in which both man and Nature participate, and in which man of his own accord starts, regulates, and controls the material re-actions between himself and Nature" (Marxists Internet Archive Encyclopedia) For Friedrich Engels, labour is an external, natural necessity and the primary condition for human life. Lenin shared this view and add that *it was labour that created man himself*.

The fundamental difference between man and animals appeared when man began to make tools, even the primitive ones. As soon as the simplest tools were made, the need arose for contact between primitive people in the labour process concerning the application of these tools. The management of these tools or instruments of labour led to the development of human society.

3.3.2. Means or Instruments of Labour

This refers to the instrument of labour that man uses that determines the force of his impact on nature. In the Marxist view, it refers to;

A thing or a complex of things, which the labourer interposes between himself and the subject of his labour, and which serves as the conductor of his activity. He makes use of the mechanical, physical, and chemical properties of some substances in order to make other substances subservient to his aims (Marxists Internet Archive Encyclopedia).

It includes tools and machinery, as well as buildings and land used for production purposesand infrastructure like roads and communication s networks and so forth. In primitive communal society, for instance, people used sticks and stones as instruments of labour, so they were usually powerless before nature. Today man works with the help of many machines and his domination over nature has grown immeasurably. It is a generally accepted verdict that the level of development of instruments of labour serves as a measure of man's domination over the environment. Marx points out that it is not articles made, but how they are made and by what instrument, that enable us to distinguish different economic epochs.

The contemporary replacement of a traditionally human-operated process by a mechanised or computerised one breeds some amount of fear and uncertainty. But this is what industralisation has done. Robots are increasingly becoming the instruments of labour, hence increasing the rate at which human influence over the environment is rapidly waning.

3.3.3. Objects of Labour

 wealth of the water are found in nature. The objects of labour that have already experienced the impact of human labour but require further processing are called raw materials. With the help of means of labour, in his labour activities, man adapts the objects of labour to his requirements, the result of this process being the product of labour.

3.3.4. Means of Production

Means of labour and objects of labour together constitutes the means of production. These means of production cannot on their own produce any material wealth. The most sophisticated technology is worthless without people. As such, human labour constitutes the decisive factor of the production process. It is also called the Productive Force i.e. means of production created by society, especially instruments of labour, and the people producing the material wealth. This ensures the development of the productive forces and the production of material wealth in adequate quantities.

3.3.5. Relations of Production

The relationship between people in the process of production, exchange, distribution and the consumption of material wealth are called relations of production or economic relation. These are usually property relations connected with the nature of the ownership of the means of production and products. Relations of production can either be relations of cooperation and mutual assistance between people free from exploitation, or relations of exploitation of man by man. The relation of production in a capitalist society either exist between members of the same social class like proletariat to proletariat or bourgeoisie to bourgeoisie on the one hand; or between members of differing and antagonistic social classes as between the bourgeoisie and proletariat.

3.3.6. Mode of Production

The productive forces (means of production) and relations of production constitute the mode of production. These two interact and influence each other, and both develop in the course of the historical development of society. The mode of production is also called *Epoch* or *Era* in the Marxian dialectics.

The productive forces are the more mobile component of the mode of production. They are always changing, for people are constantly improving the instrument of labour and accumulating diverse experiences in the process of production. A specific level of development of the productive forces requires corresponding relations of production. This is

the economic law discovered by Marx. This relates the relations of production to the character and level of development of the productive forces. This law reveals the economic basis of social relation.

3.3.7. Base of society

This is otherwise called the economic substructure, that is, the totality of socio-production relation at each given stage in the historical development of society. The base refers to the mode of production, which includes the forces and relations of production (e.g. employer–employee work conditions, the technical division of labour, and property relations) into which people enter to produce the necessities and amenities of life (https://en.wikipedia.org/wiki/Base_and_superstructure). It is the relations connected with a specific level of development of the productive forces. The *base of society* can be antagonistic or non-antagonistic. The basis of slave, feudal and capitalist societies are antagonistic, since they are based on private ownership of the means of production, relation of domination or subordination and exploitation of man-by-man. The basis of the primitive – communal and socialist societies are non-antagonistic, for this society is based on communal and public ownership of the means of production in the absence of exploitation.

3.3.8. Superstructure

The base of society engenders a corresponding superstructure and determines its development. The understanding of the relationship between the base and the superstructure is necessary for proper understanding of the working of human society in terms of what transpires in the production process. The superstructure refers to society's other relationships and ideas not directly relating to production including its culture, institutions, political power structures, roles, rituals, religion, media, and state (https://en.wikipedia.org/wiki/Base_and_superstructure). The superstructure consists of the political, philosophical, legal, artistic, religious and other views of society and corresponding institutions. In a class society, the superstructure has a class character. The dominant class creates institutions to protect its class interests, in accordance with its views.

Marx postulated the essentials of the base–superstructure concept in his preface to *A Contribution to the Critique of Political Economy* (1859): In the social production of their existence, men inevitably enter into definite relations, which are independent of their will, namely [the] relations of production appropriate to a given stage in the development of their material forces of production. The totality of these relations of production constitutes the economic structure of society, the real

foundation, on which arises a legal and political superstructure, and to which correspond definite forms of social consciousness

The base of society and the superstructure exist only for a specific period of time. Consequently, the basis of society changes elicits a change in the superstructure of the society. For instance, the replacement of the feudal basis with the capitalist one also entails a replacement of the feudal superstructure with a capitalist one.

3.3.8. Socio-Economic Formation

The mode of production of the material wealth, being a unity of the productive forces and the relations of production together with the corresponding superstructure, constitutes the socio-economic formation. Karl Marx and Frederich Engels in the Manifesto of the Communist Party identified five different socio-economic formations in the history of mankind. These are primitive communalism, slave owning, feudalism, capitalism and communism. The first phase of communism is socialism. Each of these has had its own corresponding economy, views, ideas and institutions. The development of the socio-economic formations proceeds from the lowest to the highest. Thus feudalism made way for capitalism, and capitalism for socialism i.e. the first phase of communism.

3.3.9. Social Class

Karl Marx identifies a social class as a group of persons that share a common relations to labour and the means of production. For him, each epoch or mode of production beginning from slavery to capitalism was characterized by the existence of social classes. Under slavery, the social classes were slaves and slave masters; Feudalism was characterised by lords and serfs while capitalism had bourgeois and proletariats. These social classes co-existed in a situation of stratified imbalance in status and wealth, with the dominant class extorting the 'surplus value' of the subordinate. As such, these social classes are locked in antagonistic contradictions over the allocation of social surplus.

For Max Weber, a social class consists of persons who share a similar relationship in the market place (Colson, 2013). This description is somewhat consistent with the Marxian economic stratification. Weber however disagrees with Marx on the process of social mobility. This is because whereas Marx posits that it is only through a revolution that the proletariat can rise to ascendancy, Weber advocates that the worker can attain upwards mobility through hard work and promotions in the factory.

3.3.9. The Bourgeoisie

This refers to the owners of the means of production, that is, the propertied class in a capitalist society. In the Marxian tradition, under capitalism, the bourgeoisie exploit the workers by expropriating the surplus value from their labour.

3.3.10. The Proletariat

This refers to the exploited workers who own no means of production but only have their labour to offer to the process of production. Marx asserts that while the proletariats who carry out the actual process of production are living in penury, misery or abject poverty, the bourgeoisie who only invest in the productive capital and not labour are living in affluence and splendors, the source of their wealth being in the surplus value, which they extort from the proletariats. This perpetuates the irreconcilability of their contradiction.

3.3.11. Surplus Value

Otherwise known as social surplus is the difference between what the proletariat produces and what he actually takes home in the form of his wage. Surplus-value is the social product which is over and above what is required for the producers to live. In the Marxian parlance, the surplus value is the accumulated product of the unpaid labour time of the producers. In bourgeois society, surplus value is acquired by the capitalist form of profit: the capitalist owns the means production as Private Property, so the workers have no choice but to sell their labour-power to the capitalists in order to live. The capitalist then owns not only the means of production, and the workers' labour-power which he has bought to use in production, but the *product* as well. After paying wages, the capitalist then becomes the owner of the surplus value, over and above the value of the workers' labour-power.

Marx (1867) maintains that the struggle over the possession of the surplus value is the source of antagonistic contradiction between the bourgeoisie and proletariat in a capitalist society. This class struggle for him will result in a proletarian revolution and that the subsequent proletarian victory will lead to the ascendancy of socialism and eventually communism.

3.3.12. Capital

Bourgeois economists apply the terms "capital" to all instruments of labour, from primitive man's sticks and stones. One bourgeois author said that "in the first stone which he (the savage) flings at the wild animal he pursues, in the first stick that he seizes to strike down the fruits which hangs above his reach, we see the appropriation of one article for the purpose of aiding in the acquisition of another, and thus discover the origin of capital".

However, the Marxist contends that means of production are not in themselves capital: they are a necessary condition for the existence of any society and, in this sense; classes make no difference to them.

Means of production only becomes capital when they are the private property of capitalists and are used for exploitation of the working class (proletariat). Here, capital is not a sum of money or means of production as liberal economist suggests, but a historically determined socio-production relation under which the instruments and means of production, as well as the chief means of subsistence, are the property of the capitalist class. The working class, which is the chief productive force of society, is deprived of means of production and means of subsistence, so it has to sell its labour power to the capitalist and suffer exploitation. What then is *Capital?* Simply, it is the value that, through the exploitation of wage workers, begets surplus value.

3.3.13. Class Struggle

This implies the antagonistic competition between the opposing classes in any epoch. It emerges from the struggle to appropriate a major share of the surplus that is accumulated from the process of production. In fact, Marx and Engels (1848) noted that the history of the all the hitherto existing society is the history of class struggle. Karl Marx observed that class struggle existed between the **slaves** and **slave master** under the slave owning mode of production; and between the **Lords** and **Serfs** under feudalism. However, it is the capitalist mode of production that is characterised by the most intense incidence of class struggle between the **bourgeoisie** and **proletariats**. In his view, this struggle will inevitably lead to a bloody revolution which will result in the overthrow of the bourgeois class and the enthronement of a dictatorship of the proletariat under scientific socialism.

Self-Assessment Exercises 1

Attempt these exercises to measure what you have learnt so far. This should not take you more than 5 minutes.

- 1. The class in a capitalist society that owns the means of production is called.
- A. Petit Bourgeoisie
- B. Peasantry
- C. Bourgeoisie
- D. Proletariat.
- 2. The antagonistic competition between the opposing classes in any epoch is called
- A. Class Struggle
- B. Class Conflict
- C. Class Relation
- D. Class Division
- 3. The difference between what the proletariat produces and what he actually takes home in the form of his wage in a capitalist society is called. A. Excess Workload
- B. Tax
- C. Social Surplus
- D. Exploitation
- 4. The totality of socio-production relation at each given stage in the historical development of society is called
- A. Superstructure
- B. Basis of the Society
- C. Relation of Production
- D. Government



3.4 Summary

In this unit, some of the basic concepts in political economy were listed and explained. These concepts will surface at the various segments of this course. The concept of labour, which was seen from both the bourgeois and Marxist perspectives, was well explained. Other concepts such as social class, mode of production, base and superstructure, class struggle, among others were well explained. It is important and absolutely compulsory for a student of political economy to demonstrate good understanding of all these concepts. As such, it is suggested that concerted efforts should be made to assimilate and utilize them appropriately



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Possible Answers to Self – Assessment Exercises (SAEs)

Answer to SAEs 1

Miswel to Sills I							
1.	С						
2.	\boldsymbol{A}						
<i>3</i> .	\boldsymbol{C}						
4.	C						

UNIT 4: THE ECONOMICS AND POLITICAL ECONOMY NEXUS

Unit Structure

- 4.1 Introduction
- 4.2 Learning Outcomes
- 4.3 The Economics and Politics Nexus
- 4.4 Summary
- 4.5 References/Further Readings



4.1 Introduction

The analysis of political economy focuses essentially on the nature and dynamics of state and market relations. It explicates the degree at which political exigencies affect economic realities. The critical questions therefore are; to what extent does political policies affect economic reality or vice visa? The focus of this unit is to trace the history of the relationship between economics and politics. Students will find this very interesting as it expose them to the dynamics and interdisciplinary character of political economy.



4.2 Learning Outcomes

At the end of this unit, you should be able to:

- Discuss the historical rationale of the relationship between economics and political economy.
- Analyse the difference between economics and political economy
- Make a clear distinction between economics and politics
- Evaluate the contemporary interrelationship between economics and politics.



4.3 Economics and political economy

4.3.1. Relations between Economics and Political Economy

It is important to note that political economy is a very old subject of intellectual inquiry but a relatively young academic discipline. It has philosophical underpinning as its analysis, particularly with respect to the nature and dynamics of state and market relations have been traced to early Greek philosophers namely; Plato and Aristotle as well as to the scholastics and those who propounded a philosophy based on natural law. The prominence of the discipline of political economy is attributable to the rise of the mercantilist school of thought in the 16th to the 18th century. However, its emergence as a distinct field of study in the mid-18th century was largely attributed to the reaction from the classical liberal school against the approval of excessive control of the economy as espoused by mercantilism.

This same historical and philosophical path is believed to have been followed by economics in the discussion of the history of economic thought. Balaam and Veseth (2022) opine that the relationship between political economy and the contemporary discipline of economics is particularly interesting, in part because both disciplines claim to be the descendants of the ideas of Smith, Hume, and John Stuart Mill.

A clear area of distinction between political economy and economics is predicated on that;

- 1. Political economy was rooted in moral philosophy and was from the beginning very much a normative field of study while economics sought to become objective and value-free. Indeed, under the influence of Marshall, economists endeavoured to make their discipline like the 17th-century physics of Sir Isaac Newton (1642–1727): formal, precise, and elegant and the foundation of a broader intellectual enterprise. With the publication in 1947 of *Foundations of Economic Analysis* by Paul Samuelson, who brought complex mathematical tools to the study of economics, the bifurcation of political economy and economics was complete. Mainstream political economy had evolved into economic science, leaving its broader concerns far behind.
- 2. The distinction between economics and political economy can also be illustrated by their differing treatments of issues related to international trade. The economic analysis of tariff policies, for example, focuses on the impact of tariffs on the efficient use of scarce resources under a variety of different market environments, including perfect (or pure) competition (several small suppliers), monopoly (one supplier), monopsony (one buyer), and oligopoly (few suppliers).
- 3. Different analytic frameworks examine the direct effects of tariffs as well as the effects on economic choices in related markets. Such a methodology is generally mathematical and is based on the assumption that an actor's economic behaviour is rational and is

aimed at maximizing benefits for himself. Although ostensibly a value-free exercise, such economic analysis often implicitly assumes that policies that maximize the benefits accruing to economic actors are also preferable from a social point of view.

In contrast to the pure economic analysis of tariff policies, political economic analysis examines the social, political, and economic pressures and interests that affect tariff policies and how these pressures influence the political process, taking into account a range of social priorities, international negotiating environments, development strategies, and philosophical perspectives. In particular, political economic analysis might take into account how tariffs can be used as a strategy to influence the pattern of national economic growth (neo-mercantilism) or biases in the global system of international trade that may favour developed countries over developing ones (neo-Marxist analysis). Although political economy lacks a rigorous scientific method and an objective analytic framework, its broad perspective affords a deeper understanding of the many aspects of tariff policy that are not purely economic in nature.

4.3.2. The Economics – Politics Nexus

Apart from the assertion on the relationship between economics and political economy, Lahmann (2006:527) dried to state the distinction between economics and politics by stating that the idea behind the economics politics nexus is "on the one hand, to apply the economics paradigm to the study of political phenomena... and on the other hand, to account for political forces in models of economic phenomena". Beeson (2019:201) asserts that there "the continuing importance of power politics in shaping economic as well as strategic outcomes."

Economics is concerned with studying and influencing the economy. Politics is the theory and practice of influencing people through the exercise of power, e.g. governments, elections and political parties. In theory, economics could be non-political. An ideal economist should ignore any political bias or prejudice to give neutral, unbiased information and recommendations on how to improve the economic performance of a country. Elected politicians could then weigh up this economic information and decide. In practice there is a strong relationship between economics and politics because the performance of the economy is one of the key political battlegrounds. Many economic issues are inherently political because they lend themselves to different opinions. This occasions the serious nexus between economics and politics. https://www.economicshelp.org/blog/11298/concepts/the-relationshipbetween-economics-and-politics/.For instance, positive performance or otherwise can decide the fate of an incumbent who is seeking re-election.

Many economic issues are seen through the eyes of political beliefs. For example, some people are instinctively more suspicious of government intervention. Therefore, they prefer economic policies which seek to reduce government interference in the economy. For example, supply side economics, which concentrates on deregulation, 28rivatization and tax cuts. On the other hand, economists may have a preference for promoting greater equality in society and be more willing to encourage government intervention to pursue that end.

If you set different economists to report on the desirability of income tax cuts for the rich, their policy proposals are likely to reflect their political preferences. You can always find some evidence to support the benefits of tax cuts; you can always find some evidence to support the benefits of higher tax.

Some economists may be scrupulously neutral and not have any political leanings. They may produce a paper that perhaps challenges their previous views. Despite their preferences, they may find there is no case for rail 28rivatization, or perhaps they find tax cuts do actually increase economic welfare.

However, for a politician, they can use those economists and economic research which backs their political view. Mrs. Thatcher and Ronald Reagan were great champions of supply side economists like Milton Friedman, Keith Joseph, and Friedrich Hayek. When Reagan was attempting to 'roll back the frontiers of the state' – there was no shortage of economists who were able to provide a theoretical justification for the political experiment. There were just as many economists suggesting this was not a good idea, but economists can be promoted by their political sponsors. In the US, the Paul Ryan budget proposals were welcomed by many Republicans because they promised tax cuts for better off, cutting welfare benefits and balancing the budget. This is plausible in many parts of the world. The doctrine of rational choice influence many economic decisions.

Another interesting example is the political appeal of austerity. After the credit crunch, there was a strong economic case for expansionary fiscal policy to fill in the gap of aggregate demand. Politically, it can be hard to push a policy which results in more government debt. There may be an economic logic to Keynesian demand management in a recession – but a politician appealing to the need to 'tighten belts' and 'get on top of debt' can be easier slogans to sell the general public, rather than slightly more obtuse 'multiplier theories of Keynes.' All these discussions allude to the initial assertion on the link between political exigencies and economic realities.

Self-Assessment Exercises 1

Attempt these exercises to measure what you have learnt so far. This should not take you more than 5 minutes.

- 1. Political economy is a very old subject of __ inquiry but a relatively young academic discipline.
- A. Intellectual
- B. Empirical
- C. Welfare
- D. Independent
- 2. Political economy was rooted in moral philosophy and was from the beginning very much a normative field of study while economics sought to become ___ and value-free.
- A. Dependable
- B. Accurate
- C. Objective
- D. Realistic
- 3. The distinction between economics and political economy can also be illustrated by their differing treatments of issues related to ____
- A. Domestic economy
- B. International trade
- C. Political institutions
- D. Dualism
- 4. Many economic issues are seen through the eyes of ____ beliefs.
- A. Political
- B. Cultural
- C. Social
- D. Attitudinal



4.4 Summary

In this unit, we made an exhaustive discussion on the relationship between economics and political economy on one hand and the relationship between economics and politics on the other hand. Students should be able to appreciate the philosophical and historical foundation of the economics — political economy nexus by appreciating the fact both economics and political economy lay claim to the same set of political philosophers. However, it was argued that why political economy is tilted more towards a normative orientation, economics relates more to objectivity and value free orientation. Besides, both disciplines treat international trade differently. The unit also ex-rayed the linkage between economics and politics by alluding to the fact that the relationship between political exigencies and economic realities are usually fused in the management of the economy.



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MODULE 1 POL 762



Possible Answers to Self – Assessment Exercises (SAEs)

Answer to SAEs 1

1.	\boldsymbol{A}
1.	4.

2. C

3. 4. В

 \boldsymbol{A}

MODULE 2 PERSPECTIVES OF POLITICAL ECONOMY

Unit 1	The Mercantilist Perspective of Political Economy
Unit 2	The Liberal Perspective of Political Economy
Unit 3	The Marxists Perspective of Political Economy
Unit 4	The Keynesian Perspective of Political Economy

UNIT 1: THE MERCANTILIST PERSPECTIVE OF POLITICAL ECONOMY

Unit Structure

- 1.1 Introduction
- 1.2 Learning Outcomes
- 1.3 The Mercantilist Theory of Political Economy1.3.1. Criticism of the Mercantilist theory of Political Economy
- 1.4 Summary
- 1.5 References/Further Readings/Web Sources
- 1.6 Possible Answers to Self Assessment Exercises



1.1 Introduction

The first major attempt to understand political was championed by the theory of mercantilism. This unit shall explain the various aspects of the mercantilist theory of political economy. Students need to pay keen attention to the discussion on mercantilism as it set the tone for the discussion of the succeeding theories of political economy.



1.2 Learning Outcomes

At the end of this unit, you will be able to:

- Define mercantilism as a theory of political economy;
- Trace the historical background the mercantilist theory of political economy;
- Analyze the variants of the mercantilist theory of political economy; and
- Apply the principles of mercantilism to the understanding of modern internal economic system.



The Mercantilist Theory of Political Economy

Mercantilism is an economic policy that is designed to maximize the and minimize the imports for an economy. promotes imperialism, colonialism, tariffs and subsidies on traded goods to achieve that goal. The policy aims to reduce a possible current account deficit or reach a current account surplus, and it includes measures aimed at accumulating monetary reserves by a positive balance especially of finished trade. goods (https://en.wikipedia.org/wiki/Mercantilism).

Following a long-standing tradition in the West, the mercantilists (the commercial politicos of the day) believed that the world's economy was stagnant and its wealth fixed, so that one nation grew only at the expense of another. The economies of civilizations from ancient times through the Middle Ages were based on either slavery or several forms of serfdom. Under either system, wealth was largely acquired at the expense of others, or by the exploitation of man by man (Skousn, 2007). As Bertrand De Jouvenel observes, "Wealth was therefore based on seizure and exploitation" (Jouvenel, 1999:100).

Mercantilism became the dominant school of economic thought in Europe throughout the late Renaissance and the early-modern period (from the 15th to the 18th centuries). Evidence of mercantilistic practices appeared in early-modern Venice, Genoa, and Pisa regarding control of the the empiricism of Mediterranean trade in bullion. However. the Renaissance, which first began to quantify large-scale trade accurately, marked mercantilism's birth as a codified school of economic theories (McCusker. 2001). The Italian economist and mercantilist Antonio Serra is considered to have written one of the first treatises on political economy with his 1613 work, A Short Treatise on the Wealth and Poverty of Nations (List & Nicholson, 1916).

The term "mercantile system" was used by its foremost critic, Adam Smith (Perry, 2011: 83) but Mirabeau (1715–1789) had used "mercantilism" earlier. Mercantilism functioned as the economic counterpart of the older version of political power: divine right of kings and absolute monarchy (Encyclopedia Britannica).

According to Oatley (2019:33), "mercantilism is rooted in seventeenthand eighteenth-century theories about the relationship between economic activity and state power." The mercantilist perspective is classified into classical mercantilism and modern mercantilism. The three core arguments presented by classical mercantilism are;

- 1. National power and wealth are tightly connected. National power in the international state system is derived in large part from wealth. Wealth, in turn, is required to accumulate power.
- 2. Trade provided one way for countries to acquire wealth from abroad. Wealth could be acquired through trade, however, only if the country ran a positive balance of trade, that is, if the country sold more goods to foreigners than it purchased from foreigners.
- 3. Some types of economic activity are more valuable than others. In particular, mercantilists argued that manufacturing activities should be promoted, whereas agriculture and other non-manufacturing activities should be discouraged (Oatley, 2019)

"Modern" mercantilism applies these three propositions to contemporary international economic policy:

- 1. Economic strength is a critical component of national power.
- 2. Trade is to be valued for exports, but governments should discourage imports whenever possible.
- 3. Some forms of economic activity are more valuable than others.

Manufacturing is preferred to the production of agricultural and other primary commodities, and high-technology manufacturing industries such as computers and telecommunications are preferable to mature manufacturing industries such as steel or textiles and apparel.

The emphasis on wealth as a critical component of national power, the insistence on maintaining a positive balance of trade, and the conviction that some types of economic activity are more valuable than others leads mercantilists to argue that the state should play a large role in determining how society's resources are allocated. Economic activity is too important to allow decisions about resource allocation to be made through an uncoordinated process such as the market. Uncoordinated decisions can result in an "inappropriate" economic structure. Industries and technologies that may be desirable from the perspective of national power might be neglected, whereas industries that do little to strengthen the nation in the international state system may flourish. In addition, the country could develop an unfavorable balance of trade and become dependent on foreign countries for critical technologies. The only way to ensure that society's resources are used appropriately is to have the state play a large role in the economy. Economic policy can be used to channel resources to those economic activities that promote and protect the national interest and away from those that fail to do so (Oatley, 2019).

In summary, the tenets of mercantilism according to are as follows:

• That every little bit of a country's soil be utilized for agriculture, mining or manufacturing.

- That all raw materials found in a country be used in domestic manufacture, since finished goods have a higher value than raw materials.
- That a large, working population be encouraged.
- That all exports of gold and silver be prohibited and all domestic money be kept in circulation.
- That all imports of foreign goods be discouraged as much as possible.
- That where certain imports are indispensable they be obtained at first hand, in exchange for other domestic goods instead of gold and silver.
- That as much as possible, imports be confined to raw materials that can be finished [in the home country].
- That opportunities be constantly sought for selling a country's surplus manufactures to foreigners, so far as necessary, for gold and silver.
- That no importation be allowed if such goods are sufficiently and suitably supplied at home.

1.3.1. Criticism of the Mercantilist theory of Political Economy

Adam Smith, David Hume, Edward Gibbon, Voltaire and Jean-Jacques Rousseau were the founding fathers of anti-mercantilist thought. A number of scholars found important flaws with mercantilism long before Smith developed an ideology that could fully replace it. Critics like Hume, Dudley North and John Locke undermined much of mercantilism and it steadily lost favour during the 18th century.

In 1690, Locke argued that prices vary in proportion to the quantity of money. Locke's *Second Treatise* also points towards the heart of the antimercantilist critique: that the wealth of the world is not fixed, but is created by human labour. Mercantilists failed to understand the notions of absolute advantage and comparative advantage (although this idea was only fully fleshed out in 1817 by David Ricardo) and the benefits of trade (Spiegel, 1991).

Much of Adam Smith's *The Wealth of Nations* is an attack on mercantilism. Hume famously noted the impossibility of the mercantilists' goal of a constant positive balance of trade (Dutta, n.d.). As bullion flowed into one country, the supply would increase, and the value of bullion in that state would steadily decline relative to other goods. Conversely, in the state exporting bullion, its value would slowly rise. Eventually, it would no longer be cost-effective to export goods from the high-price country to the low-price country, and the balance of trade

would reverse. Mercantilists fundamentally misunderstood this, long arguing that an increase in the money supply simply meant that everyone gets richer (Ekelund & Hébert, 1975).

The importance placed on bullion was also a central target, even if many mercantilists had themselves begun to de-emphasize the importance of gold and silver. Adam Smith noted that at the core of the mercantile system was the "popular folly of confusing wealth with money", that bullion was just the same as any other commodity, and that there was no reason to give it special treatment (Magnusson, 2003). More recently, scholars have discounted the accuracy of this critique. They believe Mun and Misselden were not making this mistake in the 1620s, and point to their followers Josiah Child and Charles Davenant, who in 1699 wrote, "Gold and Silver are indeed the Measures of Trade, but that the Spring and Original of it, in all nations is the Natural or Artificial Product of the Country; that is to say, what this Land or what this Labour and Industry Produces (cited in Magnusson, 2003:53). The critique that mercantilism was a form of rent seeking has also seen criticism, as scholars such as Jacob Viner in the 1930s pointed out that merchant mercantilists such as Mun understood that they would not gain by higher prices for English wares abroad (Magnusson, 2003:54)

The first school to completely reject mercantilism was the physiocrats; that developed their theories in France. Their theories also had several important problems, and the replacement of mercantilism did not come until Adam Smith published *The Wealth of Nations* in 1776. This book outlines the basics of what is today known as classical economics. Smith spent a considerable portion of the book rebutting the arguments of the mercantilists, though often these are simplified or exaggerated versions of mercantilist thought (Niehans, 1990).

Mercantilism was seen as the economic version of warfare using economics as a tool for warfare by other means backed up by the state apparatus and was well suited to an era of military warfare (Spiegel, 1991). Since the level of world trade was viewed as fixed, it followed that the only way to increase a nation's trade was to take it from another. A number of wars, most notably the Anglo-Dutch Wars and the Franco-Dutch Wars, can be linked directly to mercantilist theories. Most wars had other causes but they reinforced mercantilism by clearly defining the enemy, and justified damage to the enemy's economy (Spiegel, 1991).

Scholars are also divided over the cause of mercantilism's end. Those who believe the theory was simply an error hold that its replacement was inevitable as soon as Smith's more accurate ideas were unveiled. Those who feel that mercantilism amounted to rent-seeking hold that it ended only when major power shifts occurred. In Britain, mercantilism faded as

the Parliament gained the monarch's power to grant monopolies. While the wealthy capitalists who controlled the House of Commons benefited from these monopolies, Parliament found it difficult to implement them because of the high cost of group decision making (Ekelund & Tollison, 1981).

Mercantilist regulations were steadily removed over the course of the 18th century in Britain, and during the 19th century, the British government fully embraced free trade and Smith's laissez-faire economics. On the continent, the process was somewhat different. In France, economic control remained in the hands of the royal family, and mercantilism continued until the French Revolution. In Germany, mercantilism remained an important ideology in the 19th and early 20th centuries, when the historical school of economics was paramount (Wilson, 1963).

Self-Assessment Exercises 1

Attempt these exercises to measure what you have learnt so far. This should not take you more than 5 minutes.

- 1. One of principles of mercantilism of economic strength is a critical component of ___ power.
- A. National
- B. Domestic
- C. International
- D. Political
- 2. Mercantilism was seen as the economic version of ___ using economics as a tool.
- A. Education
- *B.* Warfare
- C. Diplomacy
- D. Welfare
- 3. The first school to completely reject mercantilism was the
- A. Physiocrats
- B. Psychologists
- C. Empiricists
- D. Economists



11.4 Summary

Mercantilism, which reached its height in the Europe of the seventeenth and eighteenth centuries, was a system of statism, which employed economic fallacy to build up a structure of imperial state power, as well as special subsidy and monopolistic privilege to individuals or groups favoured by the state. Thus, mercantilism held that exports should be

encouraged by the government and imports discouraged. This is the lucid summary of the entire philosophy behind the mercantilist theory. It was focused on the building of state power through the accumulation of wealth in the form of bullions. It was alleged that the mercantilist principle underpinned the multiple wars in Europe and the escalation of imperialism. This led to its criticism by the classical liberal school of thought and other succeeding theorists.



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Possible Answers to Self – Assessment Exercises (SAEs)

Answer to SAEs 1

- 1. D
- B
- 2.3. A

UNIT 2: THE LIBERAL PERSPECTIVE OF POLITICAL ECONOMY

Unit Structure

- 2.1 Introduction
- 2.2 Learning Outcomes
- 2.3 The Liberal Perspective of Political Economy2.3.1. Criticisms of the Liberal Perspective of Political Economy
- 2.4 Summary
- 2.5 References/Further Readings/Web Sources
- 2.6 Possible Answers to Self-Assessment Exercises



2.1 Introduction

Classical liberalism was espoused by Adam Smith and the succeeding liberals. In fact, political economy emerged as a distinctive field of study as a response to the perceived inadequacies of mercantilism. It emphasis at that time is on the need to limit the influence of the government in the affairs of the economy. So, Adam Smith espoused the famous invisible hands policy, which as it were presupposes that the forces of demand and supply, generally referred to as the market forces should control the economy. This was a major breakthrough in the study of political economy. Succeeding liberals, such as David Ricardo emphasised the principle of comparative advantage, which was tended towards specialisation with the view to effective maximisation of resource and optimum productivity. This shall form the basis of the discussion in this unit.



2.2 Learning Outcomes

By the end of this unit, you will be able to:

- Discuss the emergence of the liberal school of political economy
- Analyse the operation of the invisible hand in the operation of an economy
- Evaluate the criticisms of the liberal principle of political economy
- Apply the principles of liberalism to the contemporary economy.



The Liberal Perspective of Political Economy

Political economy is a very old subject of intellectual inquiry but a relatively young academic discipline (Balaam and Veseth 2022). Political economy emerged as a distinct field of study in the mid-18th century, largely as a reaction to mercantilism, when the Scottish philosophers Adam Smith (1723–90) and David Hume (1711–76) and the French economist François Quesnay (1694–1774) began to approach this study in systematic rather than piecemeal terms. Indeed, Smith's landmark work—*An Inquiry into the Nature and Causes of the Wealth of Nations* (1776), which provided the first comprehensive system of political economy—conveys in its title the broad scope of early political economic analysis (Encyclopedia Britannica, 2022).

According to Frieden, et al (2017:3), "until a century ago, virtually all thinkers concerned with understanding human society wrote about political economy. Many works by political economists in the 18th century emphasized the role of individuals over that of the state and generally attacked mercantilism. The scenario here occasioned the emergence of the liberal school of thought to "challenge the dominance of mercantilism in government circles" (Oatley, 2019:34). Liberalism emerged in Britain during the eighteenth century to challenge the dominance of mercantilism in government circles. Adam Smith and other liberal writers, such as David Ricardo (who first stated the modern concept of comparative advantage), were scholars who were attempting to alter government economic policy (Oatlay, 2019). It is perhaps best illustrated by Smith's famous notion of the "invisible hand," in which he argued that state policies often were less effective in advancing social welfare than were the self-interested acts of individuals. Individuals intend to advance only their own welfare, Smith asserted, but in so doing they also advance the interests of society as if they were guided by an invisible hand. Arguments such as these gave credence to individualcentred analysis and policies to counter the state-centred theories of the mercantilists (Encyclopedia Britannica, 2022).

Economic liberalism is a political and economic ideology based on strong support for a market economy based on individual lines and private property in the means of production. Economic liberals tend to oppose government intervention and protectionism in the market when it inhibits free trade and open competition but support government intervention to protect property rights and resolve market failures (Oatley, 2019). As an economic system, economic liberalism is organized on individual lines, meaning that the greatest possible numbers of economic decisions are made by individuals or rather than by collective or organisations (Adams, 2001).

Economic Liberalism was born as the theory of economics in classical liberalism, developed during the Enlightenment, particularly by Adam Smith, which advocates minimal interference by government in the economy. This was initially to promote the idea of private ownership and trade. However due to a growing awareness of concerns regarding policy, economic liberalism paved the way for a new form of liberalism, which allowed for government intervention in order to help the poor. As a consequence, the widespread appeal of Smith's economic theories of free trade, the division of labour and the principle of individual initiative has helped to obscure the rich body of political liberalism to be found in his work. This promoted the everyday man to hold ownership of his own property and trade which slowly allowed for individuals to take control of their places within society.

Liberalism was developed to challenge all three central propositions of mercantilism as follows:

- 1. It attempted to draw a strong line between politics and economics. In doing so, liberalism argued that the purpose of economic activity was to enrich individuals, not to enhance the state's power.
- 2. It argued that countries do not enrich themselves by running trade surpluses. Instead, countries gain from trade regardless of whether the balance of trade is positive or negative.
- 3. It contended that countries are not necessarily made wealthier by producing manufactured goods rather than primary commodities. Instead, liberalism argued, countries are made wealthier by making products that they can produce at a relatively low cost at home and trading them for goods that can be produced at home only at a relatively high cost (Oatley, 2019).

Thus, according to liberalism, governments should make little effort to influence the country's trade balance or to shape the types of goods the country produces. Government efforts to allocate resources will only reduce national welfare. In addition to arguing against substantial state intervention as advocated by the mercantilists, liberalism argued in favor of a market-based system of resource allocation. Giving priority to the welfare of individuals, liberalism argues that social welfare will be highest when people are free to make their own decisions about how to use the resources they possess.

Thus, rather than accepting the mercantilist argument that the state should guide the allocation of resources, liberals argue that resources should be allocated through voluntary market-based transactions between individuals. Such an exchange is mutually beneficial—as long as it is voluntary, both parties to any transaction will benefit. Moreover, in a

perfectly functioning market, individuals will continue to buy and sell resources until the resulting allocation offers no further opportunities for mutually beneficial exchange. The state plays an important, though limited, role in this process.

The state must establish clear rights concerning ownership of property and resources. The judicial system must enforce these rights and the contracts that transfer ownership from one individual to another. Most liberals also recognize that governments can, and should, resolve market failures, which are instances in which voluntary market-based transactions between individuals fail to allocate resources to socially desirable activities.

In the 19th century English political economist David Ricardo (1772– 1823) further developed Smith's ideas. His work—in particular his concept of comparative advantage, which posited that states should produce and export only those goods that they can generate at a lower cost than other nations and import those goods that other countries can produce more efficiently—extolled the benefits of free trade and was pivotal in undermining **British** mercantilism. About the same time the utilitarianism of Jeremy Bentham (1748–1832), James Mill (1773– 1836), and Mill's son John Stuart Mill (1806–73) fused together economic analysis with calls for the expansion of democracy (Encyclopedia Britannica, 2022).

Liberals rely heavily upon economic theory to focus principally upon the welfare consequences of resource allocation. The central question a liberal will ask is: "Is there some alternative allocation of resources that would enable the society to improve its standard of living?" (Oatley, 2019:34). Liberalism's emphasis is on the market as the principal mechanism of resource allocation. Thus, liberalism emphasizes the welfare consequences of resource allocation.

Liberals therefore argued that international economic interactions are essentially harmonious. The assumption of the liberal perspective is that "because all countries benefit from international trade, power has little impact on national welfare, and international economic conflicts are rare" (Oatley, 2019:35). The central problem, from a liberal perspective, is creating the international institutional framework that will enable governments to enter into agreements through which they can create an international system of free trade.

3.3.1 Criticisms of the Liberal Perspective of Political Economy

Smith's notion of individual-centred analysis of political economy did not go unchallenged. The German American economist Friedrich List (1789–1846) developed a more-systematic analysis of mercantilism that contrasted his national system of political economy with what he termed Smith's "cosmopolitical" system, which treated issues as if national borders and interests did not exist. In the mid-19th century communist historian and economist Karl Marx (1818–83) proposed a class-based analysis of political economy that culminated in his massive treatise *Das Kapital*, the first volume of which was published in 1867 (Encyclopedia Britannica, 2022).

The holistic study of political economy that characterizes the works of Smith, List, Marx, and others of their time was gradually eclipsed in the late 19th century by a group of more narrowly focused and methodologically conventional disciplines, each of which sought to throw light on particular elements of society, inevitably at the expense of a broader view of social interactions. By 1890, when English neoclassical economist Alfred Marshall (1842–1924) published his textbook on the *Principles of Economics*, political economy as a distinct academic field had been essentially replaced in universities by the separate disciplines of economics, sociology, political science, and international relations. Marshall explicitly separated his subject—economics or economic science—from political economy, implicitly privileging the former over the latter, an act that reflected the general academic trend toward specialization along methodological lines (Encyclopedia Britannica, 2022).

On the extent of state intervention in the management of the economy, at the center of classical liberal theory [in Europe] was the idea of *laissez-faire*. According to Donohue (2005:2), to the;

Vast majority of American classical liberals, however, *laissez-faire* did not mean no-government intervention at all. On the contrary, they were more than willing to see government provide tariffs, railroad subsidies, and internal improvements, all of which benefited producers. What they condemned was intervention in behalf of consumers

Self-Assessment Exercises 1

Attempt these exercises to measure what you have learnt so far. This should not take you more than 5 minutes.

The perspective of political economy that emphasizes a free market economy is called.

- A. Mercantilist Perspective
- B. Marxist Perspective

- C. Rational Perspective
- D. Classical Perspective.

On the extent of state intervention in the management of the economy, at the center of classical liberal theory was the idea of ____

- A. Laissez-faire
- B. Lazy fare
- C. Comparative advantage
- D. Ontology

The assumption of the liberal perspective is that because all countries benefit from international trade, power has little impact on national welfare, and international economic conflicts are ____.

- A. Prominent
- B. Rare
- C. Recurrent
- D. Real



2.4 Summary

In this unit, effort has been made to explain the liberal theory of political economy. The liberal school of political economy emerged to challenge the positions presented by the mercantilist school of thought. t advocated less state intervention in the affairs of the economy, instead the invisible hands should regulate the economy. This view was followed by other liberals notably, who emphasised the principle of comparative advantage, which was believed to ensure maximum utilisation of the world's scare and increase productivity. The emergence of an interdependent world system occasioned by international trade, international mobility will inevitably ensure international peace and minimise wars.



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Possible Answers to Self – Assessment Exercises (SAEs)

Answer to SAEs 1

7	-
1.	D
1.	ν

 \boldsymbol{A}

2.3. В

UNIT 3: THE MARXIST PERSPECTIVE OF POLITICAL ECONOMY

Unit Structure

- 3.1 Introduction
- 3.2 Learning Outcomes
- 3.3 The Marxists Perspective of Political Economy
 - 3.3.1. Marxist Theory of Political Economy
 - 3.3.2. Neo Marxist Theory
 - 3.3.3. Criticism of the Marxists Theory of Political Economy
- 3.4 Summary
- 3.5 References/Further Reading



3.1 Introduction

In this unit, the student is exposed to the discussion on the Marxist perspective of political economy. The Marxist perspective represents the radical approach to the study of political economy. It is a critique of both the mercantilist and liberal perspectives of political economy. It points out the ills of capitalism and condemns its drive for profit maximization on the altar of the exploitation of masses (workers). The assumption of capitalism that emphasized free market economy puts labour at the mercy of the owners of the means of production. The attempt for primitive capital accumulation by the capitalist makes room for the continual exploitation of labour through the surplus value. The theory also frowns at state control of the economy that occupies the doctrine of mercantilism. As a way out in the Marxian parlance is the total elimination of the state and an entrenchment of a stateless society as a move towards communism will be necessary for the emancipation of the masses.



2.2 Learning Outcomes

At the end of this unit, you should be able to:

- Discuss the basic tenets of the Marxist theory of political economy
- Analyse Marxist explanation of the state
- Apply the knowledge of Marxism to the understanding of contemporary society
- Make a critique of the Marxist theory of political economy



The Marxists Perspective of Political Economy

3.3.1. Marxist Theory of Political Economy

The Marxist theory of political economy originated in the works of Karl Marx as a critique of capitalism. It is impossible to characterize briefly the huge literature that has expanded on or been influenced by Marx's ideas. Marxism is a method of socioeconomic analysis that uses a materialist interpretation of historical development, better known as historical materialism, to understand class relations and social conflict as well as a dialectical perspective to view social transformation (Wikipedia).

It assumes that the form of economic organization, or mode of production, influences all other social phenomena including wider social relations, political institutions, legal systems, cultural systems, aesthetics and ideologies. These social relations, together with the economic system, form a base and superstructure. As forces of production (i.e. technology) improve, existing forms of organizing production become obsolete and hinder further progress. Karl Marx wrote: "At a certain stage of development, the material productive forces of society come into conflict with the existing relations of production or—this merely expresses the same thing in legal terms—with the property relations within the framework of which they have operated hitherto. From forms of development of the productive forces these relations turn into their fetters, which begin an era of social revolution (Marx, 1859).

According to Marx, capitalism is characterized by two central conditions:

- 1. The private ownership of the means of production (or capital) and
- 2. Wage labour.

Marx argued that the value of manufactured goods was determined by the amount of labour used to produce them. However, capitalists did not pay labour the full amount of the value they imparted to the goods they produced. Instead, the capitalists who owned the factories paid workers only a subsistence wage and retained the rest as profits with which to finance additional investment. Marx predicted that the dynamics of capitalism would lead eventually to a revolution that would do away with private property and with the capitalist system that private property supported. (Oatley, 2019).

The centerpiece of Marx work is an incisive analysis of the strengths and weaknesses of capitalism. Marx argued that all commodity value is determined by labour content- both the direct labour and indirect labour

embodied in capital equipment. For example, the value of a shirt comes from the efforts of textile workers put together plus the value of the person who made the looms. By imputing all the values of output to labour, Marx attempted to show that profits- the part of output that is produced by workers but received by capitalists- amount to unearned income. It is the opinion of Marx that the injustice of capitalist receiving unearned income justifies transferring the ownership of factories and other means of production from capitalists to workers.

In its critical position against capitalism, Marxists advance the following claims about interests:

- 1. Interests arise within the structure of production. The wants of the individual depend upon his place in the process of social reproduction. The individual has "economic" or "material" interests in satisfying his private wants. Within (civil) society, the position of the individual in the social division of labour determines his wants, which determine his interests.
- 2. Private (or self) interest can best be understood if we first understand the class to which the individual belongs. That is, the divisions within civil society primarily responsible for determining wants divide individuals into classes. Thus, the interests arising within civil society are implicitly class interests.
- 3. These interests of classes stand opposed. The degree to which one class achieves its material interest measures the degree to which the other fails.
- 4. Class interests arising within production become political interests involved in the struggle over state power (Caporaso and Levine, 2005).

Three dynamics would interact to drive the revolution proposed by the Marxists are;

- a. First, Marx argued that there is a natural tendency toward the concentration of capital. Economic competition would force capitalists to increase their efficiency and increase their capital stock. As a consequence, capital would become increasingly concentrated in the hands of a small, wealthy elite.
- b. Second, Marx argued that capitalism is associated with a falling rate of profit. Investment leads to a growing abundance of productive capital, which in turn reduces the return to capital. As profits shrink, capitalists are forced to further reduce wages, worsening the plight of the already impoverished masses.
- c. Finally, capitalism is plagued by an imbalance between the ability to produce goods and the ability to purchase goods.

Large capital investments continually augment the economy's ability to produce goods, whereas falling wages continually reduce the ability of consumers to purchase the goods being produced. "As the three dynamics interact over time, society becomes increasingly characterized by growing inequality between a small wealthy capitalist elite and a growing number of impoverished workers" (Oatley, 2019:35). These social conditions eventually cause workers (the proletariat, in Marxist terminology) to rise up, overthrow the capitalist system, and replace it with socialism.

In contrast to liberalism's emphasis on the market as the principal mechanism of resource allocation, Marxists argue that capitalists make decisions about how society's resources are used. Moreover, because capitalist systems promote the concentration of capital, investment decisions are not typically driven by market-based competition, at least not in the classical liberal sense of this term. Instead, decisions about what to produce are made by the few firms that control the necessary investment capital. The state plays no autonomous role in the capitalist system (Oatley, 2019). Instead, Marxists argue that the state operates as an agent of the capitalist class. The state enacts policies that reinforce capitalism and therefore the capitalists' control of resource allocation. Thus, in contrast to the mercantilists who focus on the state and the liberals who focus on the market, Marxists focus on large corporations as the key actors determining how resources are used.

The key element of Marx's argument for the emergence of classes starts by questioning the classical theory's understanding of the purpose of the market. Here Marxian theory argues that the market economy is not so much a mechanism for maximizing the private welfare of individuals generally as it is a means of facilitating the capitalist's appropriation of surplus-value and accumulation of capital. The market makes sense as a social institution because it makes possible self-aggrandizement and private accumulations of wealth in the form of capital. We can use one of Marx's better known formulations to clarify this idea (Caporaso and Levine, 2005).

Marx seems to hold various views about the historical location and comparative extent of alienation. These include: that some systematic forms of alienation—presumably including religious alienation—existed in pre-capitalist societies; that systematic forms of alienation—including alienation in work—are only a feature of class divided societies; that systematic forms of alienation are greater in contemporary capitalist societies than in pre-capitalist societies; and that not all human societies are scarred by class division, in particular, that a future classless society (communism) will not contain systematic forms of alienation (Wolff & Leopold, 2021).

Marx maintains that alienation flows from capitalist social relations, and not from the kind of technological advances that capitalist society contains. His disapproval of capitalism is reserved for its social arrangements and not its material accomplishments. He had little time for what is sometimes called the "romantic critique of capitalism", which sees industry and technology as the real villains, responsible for devastating the purportedly communitarian idyll of pre-capitalist relations. In contrast, Marx celebrates the bourgeoisie's destruction of feudal relations, and sees technological growth and human liberation as (at least, in time) progressing hand-in-hand. Industry and technology are understood as part of the solution to, and not the source of, social problems (Wolff & Leopold, 2021).

There are many opportunities for scepticism here. In the present context, many struggle to see how the kind of large-scale industrial production that would presumably characterise communist society—communism purportedly being more productive than capitalism—would avoid alienation in work. Interesting responses to such concerns have been put forward, but they have typically come from commentators rather than from Marx himself (Kandiyali 2018). This is a point at which Marx's self-denying ordinance concerning the detailed description of communist society prevents him from engaging directly with significant concerns about the direction of social change.

The scenario painted above is justified by Marx and Engels' assertion in the manifesto of the communist party published in 1848 that the 'state is nothing but an executive committee for managing the common affairs of the bourgeoisie' (The Communist Manifesto, 1848). According to Marx, the state is an organ of class *domination*, an organ of *oppression* of one class by another; its aim is the creation of "order" which legalizes and perpetuates this oppression by moderating the collisions between classes. (Lenin, 1932:9)

In summary therefore, it is plausible to state the following Marxian realities about the state:

- 1. Irreconcilable conflict exists between the economic interests of classes. This conflict arises within society and is based upon its defined social positions.
- 2. This irreconcilable conflict threatens social order.
- 3. Social order means a social organization designed (so to speak) to work to satisfy the economic interests of one class and not the other.
- 4. Given irreconcilable conflict and the oppressive character of the social order, preservation of order is maintained against the interest

of one class. Thus, the social order must oppress one of the two classes that compose it.

5. The state, or organ that maintains order, is an organ of class oppression (Caporaso and Levine, 2005).

In the international economy, the concentration of capital and capitalists' control of the state are transformed into the systematic exploitation of the developing world by the large capitalist nations. In some instances, this exploitation takes the form of explicit colonial structures, as it did prior to World War II. In other instances, especially since World War II, exploitation is achieved through less intrusive structures of dominance and control. In all instances, however, exploitation is carried out by large firms based in the capitalist countries that operate, in part, in the developing world. This systematic exploitation of the poor by the rich implies that the global economy does not provide benefits to all countries; all gains accrue to the capitalist countries at the top of the international hierarchy.

3.3.2. Neo – Marxist Theory

Neo-Marxism is a Marxist school of thought encompassing 20th-century approaches that amend or extend Marxism and Marxist theory, typically by incorporating elements from other intellectual traditions such as critical theory, psychoanalysis, or existentialism (in the case of Jean-Paul Sartre).

Neo-Marxism developed as a result of social and political problems that traditional Marxist theory was unable to sufficiently address. This iteration of thinking tended toward peaceful ideological dissemination, rather than the revolutionary, and often violent, methods of the past. Economically, neo-Marxist leaders moved beyond the era of public outcry over class warfare and attempted to design viable models to solve it.

There are many different branches of neo-Marxism often not in agreement with each other and their theories. Following World War I, some neo-Marxists dissented and later formed the Frankfurt School. The Frankfurt School never identified themselves as neo-Marxists. Toward the end of the 20th century, neo-Marxism and other Marxist theories became anathema in democratic and capitalistic Western cultures, where the term attained negative connotations during the Red Scare. For this reason, social theorists of the same ideology since that time have tended to disassociate themselves from the term neo-Marxism (Yates, 2014).

The terms "neo-Marxian", "post-Marxian", and "radical political economics" were first used to refer to a distinct tradition of economic

theory in the 1970s and 1980s that stems from Marxian economic thought. Many of the leading figures were associated with the leftist *Monthly Review* School. The neo-Marxist approach to development economics is connected with dependency and world systems theories. In these cases, the 'exploitation' that classifies it as Marxist is an external one, rather than the normal 'internal' exploitation of classical Marxism (Foster-Carter, 1973; Taylor, 1974).

In industrial economics, the neo-Marxian approach stresses the monopolistic and oligarchical rather than the competitive nature of capitalism (Nitzan and Shimshon, 2009). This approach is associated with Michał Kalecki (Kalecki, 1971), Paul A. Baran, and Paul Sweezy (Baran & Sweezy, 1966; Nitzan and Shimshon, 2009).

In the 20th and 21st centuries, a number of sociologists have approached society with a mode of analysis very much influenced by the writings of Karl Marx, however they have gone on to adapt traditional Marxism in various ways. For example, some neo-Marxists share Marx's analysis of capitalism but do not share his belief in a communist revolution. Others (such as Antonio Gramsci or, in recent times, Stuart Hall) emphasise the cultural aspects of class conflict rather than the economic focus of Marx's original writings. Those who have adapted Marx's ideas in these ways are known as neo-Marxists

3.3.3. Criticism of the Marxists Theory of Political Economy

Criticism of Marxism has come from various political ideologies and academic disciplines. This includes general criticism about lack of internal consistency, criticisms related to historical materialism, that it is a type of historical determinism, the necessity of suppression of individual rights, issues with the implementation of communism and economic issues such as the distortion or absence of price signals and reduced incentives. In addition, empirical and epistemological problems are frequently identified (Ollman, 1957; Howard & King, 1992; Popper, 2002; Keynes, 1991).

Additionally, there are intellectual critiques of Marxism that contest certain assumptions prevalent in Marx's thought and Marxism after him, without exactly rejecting Marxist politics (Baudrillard, 1975). Other contemporary supporters of Marxism argue that many aspects of Marxist thought are viable, but that the corpus is incomplete or outdated in regards to certain aspects of economic, political or social theory. They may combine some Marxist concepts with the ideas of other theorists such as Max Weber—the Frankfurt School is one example (Held, 1980, Jameson, 2002).

Self-Assessment Exercises 1

Attempt these exercises to measure what you have learnt so far. This should not take you more than 5 minutes.

- 1. The Marxist theory of political economy originated in the works of Karl Marx as a critique of ____
- A. Statism
- B. Capitalism
- C. Pragmatism
- D. Utopianism
- 2. In the international economy, the concentration of capital and capitalists' control of the state are transformed into the systematic ____ of the developing world by the large capitalist nations.
- A. Alienation
- B. Annihilation
- C. Exploitation
- D. Incorporation
- 3. In the Marxian tradition, the conflict that arises within the society is based upon its defined ___ positions.
- A. International
- B. Economic
- C. Social
- D. Political
- 4. The ___ approach to development economics is connected with dependency and world systems theories.
- A. Neo-Marxist
- B. Neo-Realist
- C. Neo-Liberalist
- D. Neo-Radicalism



3.4 Summary

The Marxists theory of political economy has become a robust attempt at understanding the dynamics of political economy. It was a critique of both the mercantilist assumption of state control of the economy, and the classical liberal school of thought that place emphasis on individual control of the economy. To this end, the Marxists state that both approaches encourage exploitation. In the mercantilist tradition, the state is used as the agent of exploitation whereas in the classical liberal tradition, individual capitalists are agents of exploitation. In the attempt for the capitalist to accumulate capital, labour is consistently exploited. This scenario will continue until a revolution, which is in the Marxian parlance referred to as the dictatorship of the proletariat.



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Possible Answers to Self – Assessment Exercises (SAEs)

Answers to SAEs 1

1.	В				
2.	C				
<i>3</i> .	C				
4.	\boldsymbol{A}				

UNIT 4: THE KEYNESIAN PERSPECTIVE OF POLITICAL ECONOMY

Unit Structure

- 4.1 Introduction
- 4.2 Learning Outcomes
- 4.3 The Keynesian Theory of Political Economy4.3.1 Basic Provisions of the Keynesian Political Economy
 - 4.3.2 Criticisms of the Keynesian Model of Political Economy
- 4.4 Summary
- 4.5 References/Further Readings



4.1 Introduction

This unit undertakes a comprehensive review of the Keynesian approach to the study of political economy. The Keynesian approach advances a critique of claims for market self-regulation common among classical and neoclassical thinkers. The Keynesian critique questions the claim that an unregulated market system will fully exploit society's productive potential. It presupposes that government intervention is absolutely necessary as a way of addressing rising spate of unemployment.



4.2 Learning Outcomes

At the end of this unit, you should be able to:

- Discuss the conditions that gave rise to the Keynesian theory of political economy.
- Analyse the effects of the Keynesian theory on the economy
- Evaluate the contemporary utility of the Keynesian theory of political economy.



4.3. The Keynesian Theory of political Economy

4.3.1. Basic Provisions of the Keynesian Political Economy

The Keynesian theory of political economy is associated with the writings and works of John Maynard Keynes (1883–1946). He was an early 20th-century British economist, best known as the founder of Keynesian

economics and the father of modern macroeconomics, the study of how economies—markets and other systems that operate on a large scale—behave. One of the hallmarks of Keynesian economics is that governments should actively try to influence the course of economies, especially by increasing spending to stimulate demand in the face of recession

(https://www.investopedia.com/terms/j/john_maynard_keynes.asp).

In his seminal work, *The General Theory of Employment, Interest, and Money*—considered one of the most influential economics books in history—he advocates government intervention as a solution to high unemployment.

At the core of the Keynesian model, the argument for market self-regulation contends that the market system will bring together wants and means in such a way as to satisfy those wants so far as is possible given the means available. This is a claim about prices and demand. The prices of goods will adjust so as to assure the market will clear; what producers bring to the market will find buyers. The price mechanism assures adequate demand. It also directs capital investment into those lines, indicated by higher profitability, where more is needed. In this argument, individual producers may fail to sell all they produce, or can produce, because what they have to sell is not wanted by those with the purchasing power to buy it. They have miscalculated in their decisions regarding the line of investment for their capital and produced the wrong goods. The low profit and income of these producers is the fate that befalls those who do not provide what consumers want. This can happen to the individual, but not to the aggregate of sellers (Caporaso and Levine, 2005).

The Keynesian critique argues that failure to find buyers can be a systemic problem having nothing to do with a bad fit between what have been produced and what is needed. It can result from the failure of the market mechanism to assure adequate purchasing power (Caporaso and Levine, 2005). It can thus fail to bring together wants and means, underutilizing society's existing productive capacity. This failure of aggregate demand differs fundamentally from the failure of particular demand. If the market tends systematically to generate failure of aggregate demand, this will affect how we judge its use as a mechanism for satisfying wants. This judgment bears on how we think of the relation of the world of private affairs to public authority, and therefore of the separability of the economy and its dominance over public life.

The Keynesian critique encourages us to reconsider the relation of politics to markets. Yet many Keynesian economists have drawn the conclusion that aggregate demand failure need not and should not be treated as a political problem. They argue instead that stability and adequate market

functioning can be assured by the introduction of automatic mechanisms, and thus by administrative rather than political means. A significant revision of the way we think about market economy is implied in the Keynesian critique. This revision in itself bears on central issues of political economy concerning the nature, social purpose, and therefore limits of the property system.

Keynes' father was an advocate of laissez-faire economics, an economic philosophy of free-market capitalism that opposes government intervention. Keynes himself was a conventional believer in the principles of the free market (and an active investor in the stock market) during his time at Cambridge.

The feasibility of continuing the free – market economy system hitherto in place was challenged by the 1929 stock market crash that triggered the Great Depression. This made Keynes to believe that unrestricted free-market capitalism was essentially flawed and needed to be reformulated, not only to function better in its own right but also to outperform competitive systems like communism (Keynes, 1936).

With the impeding collapse of the capitalist structure, John Maynard Keynes began advocating for government intervention to curb unemployment and correct economic recession. In addition to government jobs programmes, he argued that increased government spending was necessary to decrease unemployment—even if it meant a budget deficit (Keynes, 1936).

The theories of John Maynard Keynes centred on the idea that governments should play an active role in their countries' economies, instead of just letting the free market reign. This is was in critique of both the classical and neo-classical perspectives that placed emphasis on the control and regulation of the economy by the market forces. Specifically, Keynes advocated federal spending to mitigate downturns in business cycles.

The principles that undergirded the Keynesian theory of political economy are;

1. Demand—not supply—is the driving force of an economy. At the time, conventional economic wisdom held the opposite view: that supply creates demand. Because aggregate demand—the total spending for and consumption of goods and services by the private sector and the government—drives supply, total spending determines all economic outcomes, from the production of goods to the employment rate.

2. The best way to pull an economy out of a recession is for the government to increase demand by infusing the economy with capital. In short, consumption (spending) is the key to economic recovery.

These two principles are the basis of Keynes' belief that demand is so important that, even if a government has to go into debt to spend, it should do so. According to Keynes, the government boosting the economy in this way will stimulate consumer demand, which in turn spurs production and ensures full employment.

Keynes was not alone in this direction of thinking. The perception of the nature of capitalist economy has a long history. Among nineteenth-century economists, Karl Marx stands out as the most vigorous critic of the idea of the self-ordering market. Marx argued that capitalist economies have an inherent tendency toward crises involving the widespread unemployment of labour and the failure of product markets to provide adequate outlets for the existing productive capacity of capital equipment. Marx saw these crises as violent events that brought acute suffering to workers. He argued that the reproduction process of the capitalist economy, rather than proceeding smoothly, advances through a sequence of "explosions, cataclysms, crises" (Tucker, 1978:291) that arise out of contradictions inherent in an economy based on private ownership of capital and the unregulated market.

Keynes shared Marx's view up to a point. Although he did not think about the disruptions of the capitalist reproduction process in the violent language The Keynesian approach presented here emphasizes the work of the British neo-Keynesians and the American post-Keynesians rather than that of those economists (such as Paul Samuelson and James Tobin) who sought to place Keynesian ideas into a more neo-classically inspired analytical framework typical of Marx, he equally denied the ability of the market to maintain employment and smooth reproduction. Indeed, while rejecting the hypothesis that capitalism is violently unstable, Keynes concluded that left to its own devices, the capitalist economy might settle into a situation of significant underutilization of resources: In particular, it is an outstanding characteristic of the economic system in which we live that, whilst it is subject to severe fluctuations in respect of output and employment, it is not violently unstable. Indeed it seems capable of remaining in a chronic condition of sub-normal activity for a considerable period without any marked tendency either towards recovery or towards complete collapse. Moreover, the evidence indicates that full, or even approximately full, employment is of rare and short-lived occurrence (Keynes, 1936:249-50)

Economists working in the Keynesian tradition accept the argument that capitalist economies, left to their own devices, will not make full use of the resources available to them. This failure necessitates government intervention. In this sense, the instability of capitalist economy casts doubt on the hypothesis of the invisible hand and therefore also on the implications that hypothesis has for political economy. It leads to arguments in favour of government policy aimed at assuring a stable process of reproduction and adequate levels of employment.

4.3.2. Criticisms of the Keynesian Model of Political Economy

Although widely adopted after World War II, Keynesian economics has attracted plenty of criticism since the ideas were first introduced in the 1930s.

One of the major criticisms of the Keynesian model of political economy deals with the concept of big government. This implies the expansion of federal initiatives that must occur to enable the government to participate actively in the economy. Rival economic theorists, like those of the Chicago School of Economics, argue that: economic recessions and booms are part of the natural order of business cycles; direct government intervention only worsens the recovery process, and federal spending discourages private investment.

The most famous critic of Keynesian economics was Milton Friedman, an American economist best known for his advocacy of free-market capitalism. He advocated monetarism, which refuted important parts of Keynesian economics.

In contrast to Keynes' position that fiscal policy—government spending and tax policies to influence economic conditions—is more important than monetary policy—control of the overall supply of money available to banks, consumers, and businesses—Friedman and fellow monetarists held that governments could foster economic stability by targeting the growth rate of the money supply. In short, Friedman and monetarist economists advocate the control of money in the economy, while Keynesian economists advocate government expenditure.

For example, while Keynes believed that an interventionist government could moderate recessions by using fiscal policy to prop up aggregate demand, spur consumption, and reduces unemployment, Friedman criticized deficit spending and argued for a return to the free market, including smaller government and deregulation in most areas of the economy—supplemented by a steady increase of the money supply (Corporate Finance Institute).

Self-Assessment Exercises 1

Attempt these exercises to measure what you have learnt so far. This should not take you more than 5 minutes.

- 1. ____ was the founder of the Keynesian theory of political economy.
- 2. Which of the following according to the Keynesian model is the driving force of an economy?
- A. Supply
- B. Demand
- C. Consumption
- D. Politics
- 3. The Keynesian model of political economy encourages government _____ in the management of the economy.
- A. Takeover
- B. Intervention
- C. Partnering
- D. Compromise
- 4. The feasibility of continuing the free market economy system hitherto in place was challenged by the 1929 stock market crash that triggered the Great Depression. (True/False)



4.4 Summary

The events of the late 1920s to early 1930s have critically influenced economic thinking at that time. The global economic recession became a serious problem that could not be addressed by the invisible hand of Adam Smith and the stateless society recommended by the Marxists. This heralded the Keynesian economic theory, which among others supported state intervention in the management of the economy. The Keynesians adduced that demand is more important than supply, and unemployment can be reduced by state intervention in a way that could create employment. It emphasis fiscal policy and encourages government spending even if it will lead to budget deficit. Keynes theory was the saving grace of capitalism.



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Possible Answers to Self-Assessment Exercises (SAEs)

Answer to SAEs 1

- John Maynard Keynes
- В
- В
- 3.
 4. True

MODULE 3 MODES OF PRODUCTION

Unit 1	Primitive Communalism
Unit 2	Pre-Capitalist Class Divided Modes of Production
Unit 3	The Capitalist Mode of Production
Unit 4	Communist Mode of Production

UNIT 1 THE PRIMITIVE COMMUNAL MODE OF PRODUCTION

Unit Structure

- 1.1 Introduction
- 1.2 Learning Outcomes
- 1.3 Primitive Communal Mode of Production
- 1.4 Summary
- 1.5 References/Further Readings/Web Sources
- 1.6 Possible Answers to Self Assessment Exercises



1.1 Introduction

One of the definitive features of political economy is an examination of the nature of relationship that exists in the cause of the production of people's means of survival. The first of such is the primitive communal mode of production. It is a classless mode of production and primitive in nature. This unit examines the nature of relationship within the primitive communal mode of production. It highlights the nature of means of production and systems of interaction within the era. Efforts were also made to establish the circumstances that led to the decline of the primitive-communal mode of production and the eventual emergence of the slave owing mode of production.



1.2 Learning Outcomes

At the end of this unit, you will be able to:

- Define primitive communalism,
- Discuss the nature of the primitive communal era, and
- Discuss the main features of the primitive communal era.



Primitive Communal Mode of Production

The first socio-economic formation was the primitive communal system, which lasted for many hundreds of thousands of years. The development of society began from this stage. Primitive communism is the earliest mode of production in Marxist thought (https://www.encyclopedia.com/social-sciences). In the primitive communal system the relationship to the means of production was the same for all members of society.

In the Marxian parlance, the changes in the mode of production from primitive communism through slavery, feudalism, capitalism, and socialism to communism are due to the method of dialectic, and the theory of materialism. The dialectic method involves the meeting of extreme forces that merge into synthesis (https://www.encyclopedia.com/social-sciences).

At first, people were in a half-savage state, powerless before the forces of nature. They ate a mainly vegetarian diet consisting of things found ready to eat in nature roots, wild fruits, nuts etc. This mode of production emerged about two million years ago and existed as the longest period of human history. The era ended only about seven to nine thousand years ago (Ryndina*et al*: 1980).

There were two stages in the development of productive forces under the primitive-communal system. The first stage consisted mainly in the appropriation of natural products while the second stage marked the transition to a reproductive economy. During the first stage, the means of subsistence were secured mainly by gathering fruits, grains and other vegetable goods and by hunting.

Man's first tools were a roughly cut stone and stick. Later, through a slow accumulation of experience, people began to produce simple tools for banging, cutting and digging. Stones and sticks were the main instruments of labour. They were later supplanted by the use of fire, axe, bows and arrows. The discovery of fire was of major significance in the struggle with nature. Fire made it possible for primitive people to diversify their diet. The invention of the bow and arrow constituted a new era in the development of primitive people's productive forces. As a result, people began to hunt animals and meat was added to their diet. The development of hunting gave rise to primitive livestock breeding and the hunters began to tame animals. People improved their skills and accumulated useful work experience.

The beginning of land cultivation was another step forward in the development of the productive forces. Primitive farming remained at a very low level of development for a long time. The use of draft animals made farming more productive and provided it with a firm basis. Primitive people began to go over to a settled way of life. In primitive societies, people worked in common because the productive forces were poorly developed and no individual could provide all his needs single-handedly. The work of each individual was through direct social labour and simple cooperation. It is within this framework that the division of labour based on sex and age was based. Men specialised in hunting and women in gathering of food, which sometimes increased labour productivity.

As instruments of labour developed, human population began to live in clans. The basis of the relations of production in the clans was through collective ownership by individual communes of the primitive means of production, in particular, instruments of labour. Communal ownership corresponded to the development level of the productive forces at this time. The instruments of labour in primitive society were so crude that people could not fight the forces of nature and wild animals on their own. Under the ideal primitive communal mode of production, the primary cells of society were kindred groups that shared a common dwelling and together procured their means of subsistence. This group subsequently gave rise to kindred communities, which later evolved into tribes. In addition to communal ownership of the means of production there were also property belonging to the members of the commune certain tools, which were also weapons for defence against predators.

Some of the major attributes of the primitive-communal society were;

- a. Labour was not very productive and created no surplus product over and above the amount essential for life.
- b. Labour activities were based on simple cooperation. Many people do the same jobs.
- c. There was no exploitation of man by man,
- d. The egalitarian distribution of the scanty food between the members of the commune brought them all to the same level.
- e. There was no social classes and social inequality.
- f. The state, which exists to sustain social exploitation and inequality, is non-existent.

Their economy was mainly based on hunting, farming and fishing on joint basis. With the passage of time, gathering led to the emergence of arable farming as men cultivated grains with nutritional values while hunting gave rise to the breeding of domestic livestock. Arable farming and breeding of livestock became the dominant economic activities towards

the close of the era. The switch over to livestock breeding and farming was accompanied by the emergence of a social division of labour i.e. one part of society began to concentrate on agriculture, the other on raising livestock. This separation of livestock breeding from farming was the first major social division of labour in history.

Arable farming and stock-raising required suitable instruments of labour and people began to evolve the use of metal and its implements. They also learned to spin and weave. These new instruments made labour more efficient and people enjoyed better standards of living. (Ryndina *et al*: 1980) However, the main contradiction in this era was primitive man's vital needs and the low level of productive forces that was not sufficient to meet these essentials. The main economic law concentrated on the provision of vital necessities for the members of the community, the means of production being common property and only primitive instruments of labour being available.

Decline in primitive communalism however emerged as the productive forces developed. This led to change in the relations of production and men began to obtain more means of subsistence than were essential for their immediate survival. As communities began to specialise in the production of agricultural and animal products, division set in within the tribes and pastoral tribes as distinct from farming tribes began to emerge. This resulted in variations in produce, which stimulated the need for exchange. Some of the pastoral tribes produced more than the other and in some instances came into conflicts with one another over struggle for land and pasture, which sometimes resulted to war.

Under these conditions, it became possible to employ more workers. Wars prisoner being made into slaves provided them. At first, slavery was patriarchal (domestic) in character, but later it became the basis of a new system. Slave labour led to a further rise in inequality, household using slaves quickly grew rich. Later, as property inequality increased, rich people began to enslave not only captives, but also members of their fellow tribesmen who had become impoverished or were in debt. This marked the beginning of the first class division of slavery into slave owners and slave. Exploitation by man began. From this time on, right up to the establishment of socialism, human history is the history of class struggles.

One purpose of studying primitive communism is to understand how the three major classes—wage-laborers, capitalists, and landlords—have developed under capitalism. During primitive communism property belonged to the community and labour owned all the product of its labour in the absence of capital- and land-owning classes. If one tribe was

conquered by another, the conquered tribe became propertyless, as was the case with slavery and serfdom. A tribe and its property formed a sort of unity that originated from the mode of production where individuals related to one another and to nature. The object of production was to reproduce the producer. For Marx, production is not possible without capital. In primitive communism capital could be just the hands of a hunter-gatherer. Strictly speaking, capital is specific to the bourgeois mode of production. Tools are not capital outside of capitalism. And production is not possible without human labour, not tools, which are a product of human labour and natural resources.

Marx wrote, "In early communal societies in which primitive communism prevailed, and even in the ancient communal town, it was this communal society itself with its conditions which appeared as the basis of production, and its reproduction appeared as its ultimate purpose" (Marx, 1967b:831). Primitive communism dissolved when the mode of production changed.

In specific forms of primitive communism, one finds two major forms of unity between labour and production conditions. This unity was observed in Asiatic communal systems and in small-scale agriculture (Rosdolsky, 1977:273). Marx appraised the small and ancient Indian community as possessing common ownership of land, blending agriculture and handicraft, and possessing an invariable form of division of labour. As the market was unchanging, the division of labour could not evolve to, for instance, the manufacturing level.

If population increases, a new community is formed on vacant land. Production is governed by tradition, rather than by command or markets. According to Marx, "this simplicity supplies the key to the secret of the unchangeableness of Asiatic societies" (Marx [1867] 1967a:357–358).

For Marx, logical methods based on observation and deduction can lead one to "primary equations" that point to the history of capitalism (Marx [1894] 1967b, pp. 460–461). It starts "... from simple relations, such as labour, division of labour, need, exchange value, to the level of the state, exchange between nations and the world market" (Marx [1857] 1973, pp. 100–101). These simple relations explain how production, distribution, and consumption are conducted within all societies. These activities are in turn subsumed under relations of production and forces of production. A fact of primitive communism is that although "the categories of bourgeois economies possess a truth for all other forms of society.... They contain them in a developed, or stunted, or caricatured form, etc., but always with an essential difference" (Marx [1857] 1973: 106).

Marx's writings on primitive communism occupied his mind all his life. The 1880–1882 *Ethnological Notebooks* containing his study of the ethnologists Lewis H. Morgan (1818–1881), John Phear, Henry Maine, and John Lubbock remain his last view on the subject. Morgan sourced property rights in primitive societies to personal relationships and Maine to impersonal forces, but to Marx the source is from the collective. Marx basically accepted Morgan's view on the ethnology of primitive peoples. He studied primitive groups for the origin of civil society and the state and he traced the production mode from these primitive groups to modern society.

Further exposition of primitive communism was taken up by Friedrich Engels (1820–1895), based on the works of Morgan, whose materialistic conception of history was similar to Marx's. Morgan discovered a kinship system among the Iroquois Indians that was common to all the aboriginal inhabitants of the United States. He found that the system was common to Asia, and to some extent to Africa and Australia. Morgan introduced the concepts of the matriarchate and patriarchate to characterize primitive communes. The order of primitive communes originated with the production of food, or subsistence needs. The human race has progressed from lower to higher forms to modern civilization as lower forms of savagery and barbarism have progressed to higher forms. The arts of subsistence advanced as inventions and instruments evolved. Property, government, and family progressed in this natural process. For instance, evolution bequeathed group marriage for savages, pairing marriage for primitive communes, and monogamy for civil societies. Morgan's process paralleled Marx's ideas expressed some forty years earlier.

The summary of the primitive communal mode of production are stated below;

- 1. Thanks to labour, men emerged from the animal world and human society arose. The distinctive feature of human labour is the making of implements of production.
- 2. The productive forces of primitive society were on an exceedingly low level, the implements of production were extremely primitive. This necessitated collective labour, social property in the means of production and equal distribution. In the primitive community there was no property inequality or private property in the means of production; there were no classes or exploitation of man by man. Social ownership of the means of production was confined within a narrow framework; it was the property of small communities more or less isolated from one another.
- 3. The basic economic law of the primitive community consists in the securing of man's vitally necessary means of subsistence with the help of primitive implements of production, on the basis of

- communal property in the means of production, by means of common labour and the equal distribution of the products.
- 4. Working together, men for a long time performed uniform labour. The gradual improvement of implements of production promoted the rise of a natural division of labour, depending on sex and age. Further perfecting of the implements of production and the mode of obtaining the means of life, the development of cattle-breeding and agriculture led to the appearance of the social division of labour and exchange, of private property and property inequality, to the division of society into classes and to the exploitation of man by man. Thus the growing forces of production entered into contradiction with the relations of production, as a result of which primitive communal society gave way to another type of relations of production-the slave-owning system.

Self-Assessment Exercises 1

Attempt these exercises to measure what you have learnt so far. This should not take you more than 5 minutes.

- 1. ____ was the first mode of production
- 2. Which of the following is not a feature of the primitive communal mode of production?
- A. Labour activities were based on simple cooperation
- B. There was no exploitation of man by man
- C. There was no social classes and social inequality
- D. There was a strong state to regulate the affairs of the people
- 3. What was the condition that occasioned the decline in primitive communalism?
- A. As the productive forces developed
- B. As industries emerged
- C. As school system emerged
- D. As capitalists emerged.



1.4 Summary

The primitive communal mode of production was characterised by the existence of collective ownership of the productive forces. There was also division of labour based on sex and age. The main instruments of production were crude implements such as stone and metal. This era remains the longest existing mode of production in human history.



1.5 References/Further Readings

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Possible Answers to Self – Assessment Exercises (SAEs)

Answer to SAEs 1

- Primitive communalism
- D
- 2.3. \boldsymbol{A}

Unit 2 THE PRE-CAPITALIST MODES OF PRODUCTION

Unit Structure

- 2.1 Introduction
- 2.2 Learning Outcomes
 - 4.1 The slave owning mode of production
 - 4.2 The Feudal Mode of Production
- 2.4 Summary
- 2.5 References/Further Readings/Web Sources
- 2.6 Possible Answers to Self-Assessment Exercises



2.1 Introduction

The Pre-capitalist class divided modes of production comprise of both the slave owing and the feudal modes of production. The slave owing mode of production for instance emerged after the abolition of the primitive communal mode of production. It is justified by the assertion of Marx and Engels that the history of all the hitherto existing society is the history of class struggles. The slave-owning mode of production arose thanks to the growth of the productive forces of society, the appearance of a surplus product, the origin of private property in the means of production, including land, and the appropriation of the surplus product by the owners of the means of production. Slavery is the first and crudest form of the exploitation of man by man. The slave was the full and unlimited property of his master. The slave-owner, at his will, commanded not only the slave's labour, but also his life. On the other hand, the feudal mode of production emerged after the extinction of the slave owing mode of production. Attempt is made here to identify the nature and structure of the feudal era as well as the political structure in feudal societies. Specifically, the trends in social formation and nature of the productive forces and relations of production will be examined. This unit shall address these pre-capitalist class divided societies and examine the processes that led to the emergence of the capitalist mode of production.



2.2 Learning Outcomes

By the end of this unit, you will be able to:

• Define the slave – owning mode of production

 Identify the nature of the slave owning mode of production and discuss its functioning

- Discuss the origin and features of the feudal mode of production
- Explain how it transited to the capitalist mode of production.



2.3 The Slave – Owning Mode of Production

The growing inequality between people led to the formation of the state as an institution of oppression of the exploited class by the class of exploiters. Thus slavery grew up on the ruins of the primitive communal mode of production. Slavery was the first, most flagrant and avert form of exploitation. It existed virtually everywhere. The slave owing system reached the peak of its development in the period from 2nd Century BC to the 2nd Century AD.

The development of the productive forces, the further social division of labour and exchange increased property inequality even more. On the one hand, rich people appeared who concentrated the draft cattle, instruments of labour and money in their own hands, on the other, poor people who become poorer and poorer were compelled to turn to the rich for loans. Usury emerged- the debtor and the creditor. The class struggles of ancient world took the form chiefly of a contest between debtors and creditors, which in Rome ended in the ruin of the Plebeian Debtors. They were displaced by slaves. Rich slave owners began to own hundreds and thousands of slaves. They seized vast areas of land and large slave owing estates. Thus huge numbers of slaves worked in the estates.

The relations of production in slave society were based on the slave owners having in their possession both the means of production (the land, instrument of labour and so on) and the production worker-the slaves. The slaves were considered as no more than a thing; he was completely and undividedly at the disposal of his master. Slaves were called speaking tools. In the eyes of the slave owing society, the slave differed from the axe or an ox only in that he could speak. In all other aspects, he belonged to his master just as the cattle, land or tools.

The exploitation of slaves was extremely severe. They were treated worse than cattle: they were driven to work by the whip and for minor omissions were cruelly punished or even killed. The killing of a slave was not considered as murder. The slave-owner assimilated the entire product of slave labour, while the slave received the most meager quantity of means of subsistence as to prevent him from dying from hunger and to allow him to continue working for his master. As such, ancient world grew up on the skeleton of generations of slaves.

The slave mode of production contained deep contradictions, which eventually led to its collapse. Above all, the slave form of exploitation destroyed the slaves- the main productive forces of society, so the slaves then rose up against these barbaric forms of exploitation. An influx of slaves obtained through successful warfare was a condition for the existence of the slave economy. The main forces for the waging of wars were the peasant and artisans, who served in the armed forces and bore the burden of the taxes required for waging the wars. Because of competition of large slave labour, however, the peasants and artisans were ruined. This undermined the economic, political and military might of the slave state.

As the slave economy developed, the class struggle between the oppressed and oppressor grew in intensity. This struggle developed into slave uprising against the slave owners. Free peasants and artisans, who were exploited by the big landowners and the slave state, joined the slaves in their uprising. The most significant of the many slave uprisings was that led by Spartacus (74 - 71 BC). Such development led to the final collapse of the slave owing system.

1.3.1. Brief Highlights of the Slave – Owning Mode of Production

- (1) The slave-owning mode of production arose thanks to the growth of the productive forces of society, the appearance of a surplus product, the origin of private property in the means of production, including land, and the appropriation of the surplus product by the owners of the means of production. Slavery is the first and crudest form of the exploitation of man by man. The slave was the full and unlimited property of his master. The slave-owner, at his will, commanded not only the slave's labour, but also his life.
- (2) The State first took shape with the rise or the slave-owning system. It arose, as a result of the splitting of society into irreconcilably hostile classes, as the machine for suppressing the exploited majority of society by the exploiting minority.
- (3) Slave-owning economy was in the main of a natural character. The ancient world broke down into numerous separate economic units satisfying their requirements by their own production. Trade was mainly in slaves and luxury articles. The development of exchange gave rise to metallic currency.
- (4) The basic economic law of the slave-owning mode of production consists in the production of surplus product, to satisfy the

demands of the slave-owners, by the rapacious exploitation of the slaves on the basis of full ownership by the slave-owners of the means of production and the slaves themselves, by the ruining and enslaving of peasants and craftsmen, and also by conquering and enslaving the peoples of other countries.

- (5) A comparatively high culture (art, philosophy, the sciences) arose on the basis of slavery. Its fruits were enjoyed by the small upper class of slave-owning society. The social consciousness of the ancient world corresponded to the mode of production based on slavery. The ruling classes and their ideologists did not consider the slave a man. Physical labour, being the lot of the slaves, was considered a shameful occupation, unworthy of a free man.
- (6) The slave-owning mode of production caused an increase in the productive forces of society compared with the primitive communal system.

But later the labour of the slaves, who were completely without interest in the results of production, outlived its usefulness. The spread of slave labour and the lack of any legal protection whatsoever for the slaves resulted in the destruction of the basic productive force of society-the labour force-and the ruin of the small free producers-the peasants and artisans. This 'predetermined the inevitable downfall of the slave-owning system.

(7) Slave revolts shook the slave-owning system and hastened its destruction. The feudal mode of production came to replace the slave-owning mode of production; instead of the slave-owning form of exploitation there arose the feudal form of exploitation, which gave some scope for the further, development of the productive forces of society (https://www.marxists.org/subject/economy/...).

Self-Assessment Exercises 1

Attempt these exercises to measure what you have learnt so far. This should not take you more than 5 minutes.

- 1. What were slaves called in the slave-owning mode of production? (
- A. Speaking tools
- B. Working tools
- C. Labour tools
- D. Helping tools
- 2. Slavery grew up on the ruins of the ___ mode of production.
- A. Primitive communal

- B. Capitalist
- C. Communist
- D. Colonial
- 3. __ revolts shook the slave-owning system and hastened its destruction.
- 4. The slave mode of production gave way for the emergence of the ____ mode of production.

2.4. Feudal Mode of Production

2.4.1. Origin of the Feudal Mode of Production

The feudal system existed, with particular features of one sort or another, in almost all countries. The era of feudalism covers a long period. In China the feudal system existed for more than two thousand years. In Western Europe feudalism covers a number of centuries, from the time of the fall of the Roman Empire (fifth century) to the bourgeois revolution in England (seventeenth century) and in France (eighteenth century); in Russia from the ninth century to the peasant reform of 1861; in Transcaucasia from the fourth century to the seventies of the nineteenth century; among the peoples of Central Asia from the seventh or eighth centuries right up to the victory of the proletarian revolution in Russia.

In Western Europe, feudalism arose out of the breakdown of Roman slave-owning society, on the one hand, and the decay of the tribal system of the conquering tribes, on the other; it was established as a result of the interaction of these two processes.

Elements of feudalism, as has already been said, had originated in the womb of slave-owning society in the form of the system of coloni. The coloni were obliged to work the land of their master, the large landowner, to make him a definite money payment or hand over a considerable share of the harvest, and to fulfil various types of duty. Nevertheless, the coloni had more interest in their labour than the slaves, since they had their own holdings. Thus there arose new productive relations which achieved full development in the feudal period.

Tribes of Germans, Gauls, Slavs and other peoples living in different parts of Europe destroyed the Roman Empire. The slave-owners' power was overthrown and slavery fell. The large latifundia and handicraft workshops based on slave labour broke down. The population of the former Roman Empire consisted of large landowners (former slave-owners, who had adopted the system of coloni), freed slaves, coloni, small peasants and artisans.

The conquering tribes, at the time of the subjugation of Rome, had a communal system which was in decline. The village community, which the Germans called the mark, played a great part in the social life of these tribes.

The land, except for the large landed possessions of the clan nobility, was common property. The forests, heaths, pastures and ponds were used in common. Fields and meadows were re-divided every few years among the members of the community. Gradually, however, the land around the homestead, and later also the plough land, began to be inherited by separate families. The distribution of land, the investigation of matters concerning the community, the settlement of disputes between its members, was dealt with by the community meeting and by the elders and judges elected by it. At the head of the conquering tribes stood their military leaders who, together with their retinues, held considerable tracts of land.

The tribes which conquered the Roman Empire acquired a great part of its State lands and some part of the lands of the large proprietors. Forests, meadows and pastures remained in common use, but the plough land was divided into separate holdings. Later the divided lands became the private property of the peasants. Thus a broad stratum of independent small peasantry was formed.

The peasants, however, were unable to preserve their independence for long. Property inequality between different members of the village community inevitably developed on the basis of private ownership of land and 'other means of production. Well-to-do and poor families appeared among the peasants. With the growth of property inequality members of the community who had grown rich began to acquire power over the community. The land was more and more concentrated in the hands of the rich families, the clan aristocracy and military leaders. The peasants fell into personal dependence on the large landowners.

The conquest of the Roman Empire hastened the break-up of the clan system among the conquering tribes. In order to maintain and strengthen their power over the dependent peasants the large landowners had to reinforce the organs of State power. Military leaders, relying on the clan aristocracy and the members of their retinues, began to concentrate power in their hands and became kings-monarchical rulers.

A number of new States headed by kings were formed on the ruins of the Roman Empire. The kings generously handed out the land they had seized for the lifetime and afterwards for the hereditary possession of their attendants, who had to bear military service in return. The Church, which served as an important support for the royal power, received much land.

The land was worked by peasants who now had to fulfil a number of duties for their new masters. Huge landholdings passed into the hands of members of the royal retinue and servants, the clerical authorities and the monasteries.

The lands distributed on such conditions were called feods (fiefs). Hence comes the name of the new social structure, feudalism.

The gradual conversion of peasant land into the property of feudal lords and the enserfment of the peasant masses (the process of feudalisation) took place in Europe in the course of a number of centuries (from the fifth or sixth to the ninth or tenth centuries). The free peasantry was ruined by incessant military service, plunder and impositions. Turning for help to the large landowner, the peasants converted themselves into his dependents. Frequently the peasants were compelled to yield themselves into the "protection" of the feudal lord; otherwise it was impossible for a defenceless man to exist in conditions of ceaseless wars and bandit raids. In such cases property rights in the plot of land passed to the feudal lord, and the peasant could work his plot only on condition of fulfilling various duties for the lord. In other cases, the royal lieutenants and officials, by means of deceit and force, appropriated the land of free peasants, making the latter acknowledge their power.

In different countries the process of feudalisation took different courses, but the essence of the matter was everywhere the same: the formerly free peasants fell into personal dependence on the feudal lords who had seized their land. Sometimes this dependence' was weaker, sometimes stronger. In course of time the differences in the position of former slaves, coloni and free peasants disappeared, and they were all converted into a single mass of peasant serfs. Gradually there was established the' position which is described by the medieval phrase: "No land without its lord" (i.e.) without its feudal master). The kings were the supreme landowners.

Feudalism was an essential stage in the historical development of society. Slavery had outlived itself. In these circumstances the further development of productive forces was only possible on the basis of the labour of the mass of dependent peasantry, possessing their own holdings, their own implements of production and having some interest in labour.

As the history of mankind testifies, however, it is not obligatory that every people should pass through all stages of social development. For many peoples' conditions arise under which they have the possibility of missing one stage of development or another and of passing immediately to a higher stage.

In Russia patriarchal slavery arose when the primitive community was breaking down. The development of society here, however, went in the

main not along the road of slave-owning, but of feudalisation. The Slavonic tribes, even when the clan system was predominant among them, beginning from the third century A.D., attacked the Roman slave-owning Empire, struggled to free the towns of the northern Black Sea coast which were in its power and played a great part in the overthrow of the slave-owning system. The transition from the primitive community to feudalism-took place in Russia at a time when the slave-owning system had long since fallen in the countries of Western Europe, and when feudal relations had been stabilised there.

The village community among the Eastern Slavs was called very or mir. The community had meadows, forests and ponds in common use, but the plough land began to pass into the possession of separate families. An elder was at the head of the community. The development of private landowning led to the gradual breakdown of the village communities. The elders and tribal princes seized the land. The peasants (smerds) were at first free members of the community, but later fell into dependence on the large landowners (boyars).

The Church became the largest feudal owner. Grants by the princes, endowments and legacies made it the possessor of broad lands and the richest estates of those times. In the period of the formation of the centralised Russian State (fifteenth to sixteenth centuries) the Grand Princes and Tsars began to "place" (Russian, pomeshchat) their attendants and serving people on the land, i.e., to give them land and peasants on condition of their owing military service. Hence, the names pomest'e (fee or estate) and pomeshchik (lord of the manor).

At that time the peasants were not yet finally bound to the landowner and the land; they had the right to transfer from one lord to another. At the end of the sixteenth century the lords, with a view to increasing the production of grain for sale, intensified their exploitation of the peasants. In connection with this the State in 1581 deprived the peasants of the right of transfer from one landlord to another. The peasants were completely bound to the land belonging to the lords and were thus converted into serfs.

In the period of feudalism agriculture played a predominant part and tillage was its most important branch. Gradually, in the course of a number of centuries, methods of grain-growing improved and market gardening, fruit-growing, vine-growing and butter-making developed.

In the early period of feudalism the fallow system predominated, but in forested regions the "slash and burn" system of tillage predominated. A plot of land was sown several years consecutively with some crop until the soil was exhausted. Then they transferred to another plot. Later an advance to the "three-field" system took place; in this the arable was

divided into three fields of which in turn, one was used for winter crops, the second for spring crops and the third remained fallow. The three-field system began to spread in Western Europe between the ninth and the tenth and in Russia from the eleventh and twelfth centuries onwards: It remained dominant throughout many centuries, being preserved until the nineteenth century and, in many countries, even to the present time.

Agricultural equipment in the early period of feudalism was poor. The primitive wooden plough (sokha) with iron share, the sickle, scythe and spade served as implements of labour. Later, the iron plough and harrow began to be used. The grinding of grain was for a long time carried out by hand, until wind and water mills became widespread.

2.4.2. Feudal Mode of Production

With the decline of the large latifundia (agricultural estates – the latifundia of Roman history were great landed estates, specialising in agriculture destined for export) based on slave labour, small ones became more profitable, so the member of freed slaves increased and, at the same time, the latifundia were broken up into small plots worked by Coloni. A Colonus was no longer a slave but a tiller of the soil who received a plot of land for lifelong use and paid a certain amount in money or in kind for this privilege. The Colonus was not a free tenant; he could not leave the plot of land to which he was attached, and he could be sold together with the plot. Coloni were the forerunners of the medieval serfs. Thus, the feudal mode of production began to take shape within the slave owing system (Sabine and Thorson, 1973).

Feudalism dominated the political structure of the medieval era just as city-states were prevalent in the Greeko-Roman era. However, the structure and processes of feudalism was unequally developed in different times and places. For instance, the notion of serfdoms existed as early as the 5th century. However, the developed structures of feudalism emerged in the 11th and 12th centuries following the collapse of the Frankish empire. It is sometime estimated that the feudal era lasted for as long as twelve centuries in history.

The feudal epoch was characterised chiefly by land ownership held as *fief* (consisted of inheritable lands or revenue-producing property granted by a liege lord, generally to a vassal, in return for a form of allegiance, originally to give him the means to fulfill his military duties when called upon) by *serfs* (member of the lowest feudal class, attached to the land owned by a lord and required to work on the land in return for certain legal rights). The productive forces under the feudal era were more advanced than what existed under slave owning mode of production. New productive forces emerged which were later hampered by the narrow

bounds of the feudal relations of production. Public officers carried out their functions not only for national interest but also for the gains they anticipate in return usually in the form of land over which they exercise full jurisdiction. In a number of cases, a substantial part of the land went to the military leaders, the strongest of whom later became kings. The military leader handed over the seized land to their combatants for lifelong use, and later as inheritable property together with the peasants living on it.

One underlying feature of the feudal era is the fact that in a period of order and threats of anarchy in medieval European societies, large political and economic units were usually impossible. As such, government tended to be restricted to a small size by modern or Roman standards. Consequently, there was a focus on the system of agriculture, which made the village community and its dependent farmlands almost self-sufficing. In this situation, land emerged as a very crucial factor and important source of wealth in the feudal era. The effect of this was that every individual, including the King and his fighting forces derived their social, economic and political status and right from their relationship to land.

Interestingly, the control of land became the preserve of a small community in the form of villages, which also exercised customary regulations and minor police functions. The control of government and organisation of society became fundamentally local. This is because the existing state of disorder and primitive means of communication created difficulties for the emergence and functioning of a large central government in even elementary duties as the protection of life and properties.

The plots of land handed out on these terms were called fief, and the people who received them-feudal lords. Those who received land sometimes had to do military service. The land continued to be worked by small serf or peasants but they were now personally dependent on their new masters. The peasants have no right to move outside the jurisdiction of the property owners. They work constantly on the land for the lord who had the seal of ownership and to whom they must give part of their surplus value. This explains why the feudal era is described as an era, which its legal principle was a system of land-tenure in which ownership was displaced by something like leasehold.

In the feudal era, the man of small power became the dependant of someone strong enough to protect him. He was at the same time engaged in a personal relation and property relation. The personal relations emphasised loyalty and reverence of the vassal to his superior. It however operated to withdraw the loyalty of the lesser ranks from the king to their immediate overlords. On the other hand, the property relation was more

of a contract in which the two parties retained each of his private interests and cooperated because it was mutually advantageous to do so. In each of these relations, the small man obligates himself to render services to the great man in return for protection. He becomes a tenant on his land, which he in most instances offers for his protection. The property and power of the strong man becomes enhanced and he offers his protection to the serf. Similarly, the conditions of service and protection could also be reversed as a king could grant his land to a tenant who would make a return in service or rent (Sabine and Thorson, 1973).

Another remarkable feature of a feudal era is the pattern of structured vested interest which runs through the community. Structurally, the king is the sole land owner and his barons are tenants of the king and land owners by virtue of land which the kings extends to them for special services rendered. The barons will in turn have tenants on the land granted to them by the king while the serfs are at the bottom of the ladder. It is also expected that the baron will raise some number of men for the feudal army to the service of the king and each baron was to command his own men.

Under feudalism, an individual became servants first to the lord before the state and the relationship between the individual and state were at best secondary. This is because the individual's civic duties were first subsumed in his relationship with the feudal lords whose duty it was to protect his serfs. Those who have no fief have no lords and therefore have no rights as they have no lord to protect them. Quite often, these individuals were not considered as citizens.

It is important to note that the grant of tenant sometimes carried with it the right to administer justice in his barony with immunity from interference from the king's officers. Consequently, the lords have governmental powers to operate individual manorial courts that decide among others issues relating to land titles, taxation and sometimes, monetary issues. However, the kings were slow to grant such powers and often hesitated where they could avoid it. The court of a lord and his vassals was the typical feudal institution. It was essentially a council of the lord and his men for the settlement of disputes arising among them in the course of implementing their contract.

The feudal lords' private ownership of the land and his partial ownership of the serf provided the basis for the relations of production in feudal society. The serf was not a slave for he had his own household. Alongside the property of the feudal lords, there existed the property of the peasants serfs and craftsmen-tools and their private holdings. Generally, the working time of the peasant serf was divided into the *necessary time* and *the surplus time* (Ryndina, et al, 1980)

During the *necessary time*, the peasants produced what was needed for the subsistence of his family. During the *surplus time*, he created surplus products, which were appropriated by the feudal lords in the form of land rent (labour, rent in kind or in money). The exploitation of the peasant serfs in the form of land rent constituted the main feature of feudalism. The feudal lords could not kill their serfs but could sell them. As such, there was a non-economic coercion of peasant serfs to work for the feudal lords.

It is remarkable to also observe that under feudalism, the king related to his subjects only at second or third hand especially as it relates to the three great instruments of political power- army, revenue and administration of justice. It is also noteworthy to state that the relation between the *serf* and his lord were usually mutual even though it remained unequal. For instance, the vassal (that is, one who enters into mutual obligations with a monarch, usually of military support and mutual protection, in exchange for certain guarantees, which usually include the terrain held as a fief) owed the lord the duties of loyalty and obedience, military service, periodic payments and attendance to the lord's court. The lord on his part was obligated to give aid and protection to his vassal and to abide by the customs or the charter, which defined the vassal's rights and immunities.

The end of the era began with the rise of the trading cities in the twelfth century even as many of the important political consequences of feudalism appeared after that date. The peasantry oppressed by feudal exploitation was unable to increase agricultural output since the productivity of the serfs was low. In the towns, the growth of artisan's labour productivity came up against obstacles raised by guild rules. All this required the elimination of the old relations of production and the establishment of new ones, free from the feudal bondage.

The entire history of feudalism was one of fierce struggle between peasants and feudal lords, and this struggle became intense with feudal uprising which shock the foundations of the feudal epoch. This struggle against the feudal lords was championed by the emerging bourgeois class who made use of the serf uprising to seize political and economic power. The advent of industrial revolution which ushered in new means of production and productive forces eventually led to the end of feudal epoch. Thus, signaling the advent of another mode of production called capitalism.

1.3.2. The Feudal Mode of Production at a Glance

1. Feudalism arose on the basis of the disintegration of slave-owning society and the break-up of the village community of the tribes

which conquered the slave-owning States. In those countries where there had been no slave-owning system, feudalism arose on the basis of the break-up of the primitive community system. The clan aristocracy and military leaders of the tribes took into their hands a great quantity of lands and distributed them among their followers. The gradual enserfing of the peasants took place.

- 2. The feudal lord's ownership of land and incomplete ownership of the worker in production-the peasant serf-was the basis of the relations of production in feudal society. As well as feudal property there existed the individual property of the peasant and craftsman, which was based on personal labour. The labour of the peasant serfs was the source of the existence of feudal society. Serf exploitation was expressed in the fact that the peasants were compelled to perform week-work for the feudal lord, or to pay him quitrent in kind and in money. The burden that serfdom laid on the peasant was frequently little different from that of slavery. However, the serf system opened certain possibilities for the development of the productive forces since the peasant could work a certain part of the time on his own holding and had a certain interest in his labour.
- 3. The basic economic law of feudalism consists in the production of surplus product to satisfy the demands of the feudal lords, by means of the exploitation of dependent peasants, on the basis of the ownership of the land by the feudal lords and their incomplete ownership of the workers in production-the serfs.
- 4. Feudal society, particularly in the period of the early Middle Ages, was split into small princedoms and states. The nobility and clergy were the ruling estates of feudal society. The peasant estate had no political rights. A class struggle between peasants and feudal lords took place throughout the whole history of feudal society. The feudal State, reflecting the interests of nobility and clergy, was an active force helping them to consolidate their right of feudal ownership of the land and to intensify their exploitation of the dispossessed and oppressed peasants.
- 5. In the feudal epoch agriculture played a predominant part, and the economy had a basically natural character. With the development of the social division of labour and exchange, the old towns which had survived the fall of the slave-owning system revived, and new towns arose. The towns were centres of handicraft and trade. The crafts were organised in guilds which strove to prevent competition. Traders united in merchant guilds.

6. The development of commodity production, breaking down the natural economy, led to differentiation among the peasants and the craftsmen. Merchant capital hastened the decline of the crafts and promoted the birth of capitalist enterprise-the manufactories. Feudal limitations and territorial divisions acted as a brake on the growth of commodity production. In the process of further development the national market was formed. The centralised feudal State arose in the form of absolute monarchy.

- 7. Primitive accumulation of capital prepared the conditions for the rise of capitalism. Huge numbers of small producers-peasants and craftsmen-were deprived of the means of production. Great monetary wealth concentrated in the hands of large landowners, merchants and usurers was created by means of the forcible expropriation of the peasantry, colonial trade, taxes and the slave trade. Thus the formation of the basic classes of capitalist society, of wage-workers and capitalists, was accelerated. More or less complete forms of the capitalist order of society grew and ripened in the womb of feudal society.
- 8. The production relations of feudalism, the low productivity of the unfree labour of the peasant serfs, and guild restrictions, hindered the further development of productive forces. Peasant serf risings. Shook the feudal system and led to the abolition of serfdom. The bourgeoisie took the lead in the struggle for the overthrow of feudalism. It made use of the revolutionary struggle of the peasants against the feudal lords in order to take power into its own hands. The bourgeois revolutions put an end to the feudal system and established the rule of capitalism, giving scope for the production development of the forces of (https://www.marxists.org/subject/economy/authors/pe/pech03.htm).

Self-Assessment Exercises 2

Attempt these exercises to measure what you have learnt so far. This should not take you more than 5 minutes.

- 1. Feudalism is anchored on ____ ownership
- 2. The exploitation of man by man under feudalism carried out by the ____
- 3. Which of the following prepared the conditions for the rise of capitalism?
- A. Primitive accumulation of capital
- B. Industrial revolution
- *C. Spread in education*
- D. Increased civilization



2.5 Summary

The slave – owning era replaced the primitive communal mode of production. It was characterised by the existence of social classes and apparent inequality and injustice. The class antagonism at the slave – owning mode of production was between the slaves and the slave owners. The slave owners exploit the slave and use them to acquire wealth. The slaves were subjected to intense exploitation and this led to intense class struggle, which resulted in the collapse of the era and emergence of feudalism. The feudal mode of production was based on individual's relationship to land. The demise of feudalism created room for the emergence of capitalism.



2.5 References/Further Readings

Ryndina, M.N., Chernikov, G.P. and Khudokormov, G.N. (1980). Fundamentals of Political Economy. Moscow: Progress Publisher.

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Possible Answers to Self – Assessment Exercises (SAEs)

Answer to SAEs 1

- 1. B
- 2. A
- 3. Slaves
- 4. Feudal

Self-Assessment Exercises 2

- 1. Land
- 2. Feudal lords
- 3. A

UNIT 3: THE CAPITALIST MODE OF PRODUCTION

Unit Structure

- 3.1 Introduction
- 3.2 Learning Outcomes
- 3.3 Capitalist Mode of Production
- 3.4 Summary
- 3.5 References/Further Reading



3.1 Introduction

The capitalist mode of production displayed the highest dimension of class antagonism. The irriconcilibility of class antagonism manifested in escalating spate of the exploitation of the proletariat by the bourgeoisie. This unit examines the nature of the capitalist mode of production. Specifically, efforts will be made to highlight the nature of production relations and forces of production in a society dominated by capital. Similarly, the unit will also enumerate on the contention between the propertied class and the exploited workers. This contention manifested in the dictatorship of the proletariat, which led to the end of the capitalist mode of production.



2.2 Learning Outcomes

At the end of this unit, you should be able to:

- Discuss the origin of the capitalist mode of production
- Identify the evolution of capitalist mode of production.
- Know the basic features of capitalism
- Apply the lesson to the contemporary human society



3.3 Capitalist Mode of Production

The capitalist mode of production emerged during the last stage of feudalism. Its development has gone through two stages: pre-monopoly capitalism and monopoly capitalism or imperialism. Both of these stages have the same economic basis namely:

- a. Private ownership of the means of production and
- b. Exploitation of wage labour.

There however exist differences between pre monopoly capitalism and imperialism. Pre-monopoly capitalism is the period in the development of capitalism when there was free competition and the productive forces developed more or less smoothly. In USA, Britain, France and other developed countries, pre monopoly capitalism dominated until the last thirty years of the 19th century.

Since 1870 onwards, processes began to develop in the economies of the capitalist countries that gave pre-monopoly capitalism new features. Monopolies began to play the decisive role in the economic life of the capitalist countries. At the turn of the century, pre-monopoly capitalism turned into imperialism, which Lenin (1939) described as the highest and last stage in capitalism.

In his examination of the nature of capitalism, Marx began his analysis with the notion of commodity. He contends that under capitalism, everything, from the smallest pin in a huge factory, and even man's labour power is bought and sold or as the economist put it, takes the form of a commodity (Marx, 1867). The relation between people in society takes the shape of relations between commodities. From this, he posits that the commodity is the economic cell of bourgeoisie society.

Marx and Engel's proved that the division of society into classes is linked with the appearance of private ownership of the means of production i.e. land, mineral and instruments of labour, in a word, everything people need to produce material wealth (Marx and Engels, 1848). One part of the society, the minority, concentrates the ownership of the means of production in its hands and is therefore able to exploit the other part of society, which is deprived of the means of production. The capitalist ownership of the means of production and exploitation of wage labour divides the society into hostile social classes i.e. the bourgeoisie and proletariats.

Bourgeoisie society is characterized by the existence of two major opposing classes namely;

- a. The bourgeoisie and
- b. The proletariat.

The bourgeoisie is the class that owns the means of production and used them to exploit the workers in order to derive surplus value. The proletariat is the class of wage workers, deprived of means of production and consequently subject to capitalist exploitation. In fact, the proletariats are seen as commodities, what is in the Marxian parlance as the commodification of labour. There was also in existence, the classes of landowners and peasants, surviving from the feudal system at the early years of capitalism in Europe.

The bourgeoisie and the proletariat are antagonistic classes i.e. they have opposing and irreconcilable hostile interests. In fact, according to Marx and Engels (1848), class antagonism got to its peak under the capitalist mode of production.

As capitalism develops, the proletariats grow in members, become increasingly conscious of its class interests, develops and organizes itself for a struggle against the bourgeoisie. The class struggle waged by the proletariat against the bourgeoisie constitutes a significant feature of the bourgeoisie society.

The irreconcilability of class antagonism that become prominent under the capitalist mode of production led the emergence of the bourgeois state. That is why Marx and Engels defined the state in the Manifesto of the Communist Party as nothing but a committee for the management of the common affairs of the bourgeoisie. To the Marxists, the functions of the bourgeois state are;

- a. Protection of capitalist private ownership of the means of production,
- b. Facilitation of exploitation of the working people and
- c. Suppression of the struggle of the exploited class against the capitalist system.
- d. Sustenance of the dictatorship of the bourgeoisie.

Even though bourgeois scholars and legal experts with capitalist sympathies, picture the bourgeois state as being above classes and standing above society in general, the Marxists, particularly as a departure from the Communist Manifesto are of the view the state only exist to keep class antagonism in check in favour of the bourgeoisie.

The bourgeois states main task like that of any exploitative state consists in keeping the exploited majority subordinated and obedient to the ruling class. The bourgeois state takes different forms (monarchy or republic) and regimes (democratic, fascist or despotic) but its essence is the same – all forms of bourgeois state are dictatorship of the bourgeoisie. The capitalist state's aim is to maintain and consolidate the exploitation of wage labour by capital.

By the multifaceted challenges that will confront the capitalist mode of production, Marx and Engels (1848) further contend that it will inevitably

lead to socialism. His argument is that technological advances enable capitalists to replace workers with machinery as a means of earning greater profits. He observed that the increasing accumulation of capital has two contradictory consequences. For instance, as the supply of available capital increases, the rate of profit on capital falls. At the same time, with fewer jobs, the unemployment rates rise and wages fall. In Marx terms, the reserve army of the unemployed would grow, and the working class would become increasingly impoverished and their working conditions would deteriorate and workers would grow progressively alienated from their jobs. The business climate will become more violent as mass poverty will increase the incidence of underconsumption.

The continued decline in profit margins and investment opportunities at the domestic level will compel the dominant bourgeois class to resort to imperialism. Marx maintained that the capitalist system would not continue with this unbalanced growth forever. As such, he predicted that the increasing inequality would result in the intensification of class consciousness among the proletariats. Finally, a cataclysmic depression will sound the death knell of capitalism which like feudalism, contains the seed of its own destruction.

3.3.1. Brief Highlights of the Capitalist Mode of Production

The following highlights of the capitalist mode of production, which are obtained from Marxist Writers' Achieve, are encapsulated in the points below:

- 1. The point of departure for the rise of capitalism was the simple commodity production of craftsmen and peasants. Simple commodity production differs from capitalism in that it is based upon the individual labour of the commodity producer. At the same time it belongs fundamentally to the same type as capitalist production, in as much as its foundation is private ownership of the means of production. Under capitalism, when not only the product of labour, but labour power too becomes a commodity, commodity production acquires a dominant, universal character.
- 2. A commodity is a product which is made for exchange; it appears from one angle as a use-value and from the other as a value. The labour which creates a commodity possesses a dual character. Concrete labour is labour expended in a definite form; it creates the use-value of a commodity. Abstract labour is the expenditure of human labour power in general; it creates the value of a commodity.

- 3. Value is the social labour of the commodity producers embodied in a commodity. Value is an historical category which belongs only to commodity economy. The magnitude of the value of a commodity is determined by the labour which is socially-necessary for its production. The contradiction in simple commodity economy consists in the fact that the commodity producers' labour, which is directly their own private affair, bears at the same time a social character.
- 4. The development of the contradictions of commodity production leads to one commodity spontaneously being singled out from the rest and becoming money. Money appears as the commodity which plays the role of universal equivalent. Money fulfils the following functions: (1) measure of value, (2) medium of circulation, (3) means of accumulation, (4) means of payment, and (5) world-wide currency.
- 5. With the growth of the circulation of money, paper money arises. Paper money, which lacks any value of its own acts as a token for metallic money and replaces it as the circulation medium. An exceptionally large issue of paper money, causing its depreciation (inflation) leads to a lowering of the standard of life of the working people.
- 6. In a commodity economy based on private property in the means of production, the law of value is the spontaneous regulator of the distribution of social labour between branches of production. The operation of the law of value causes a differentiation among the petty commodity producers and the development of capitalist relations.
- 7. Capitalist simple co-operation is a form of production based on exploitation by a particular capitalist of a more or less substantial number of simultaneously-employed wageworkers who all carry out work of the same kind. Capitalist simple co-operation secured economy in means of production, created a new social productive force of labour, reduced the expenditure of labour per unit of production. The results of the growth in the productive power of social labour were appropriated by the capitalists without compensation.
- 8. Manufacture is large-scale capitalist production based on hand technique and division of labour among wage-workers. The division of labour under manufacture considerably enhanced the productivity of labour, while at the same time mutilating the wage-

worker by dooming him to an extremely one-sided development. Manufacture created the necessary prerequisites for the transition to large-scale machine industry.

- 9. The development of commodity production leads to disintegration of the peasantry. A small upper section of countryfolk pass into the ranks of the bourgeoisie, while a substantial section of the peasantry pass into the ranks of the proletariat-urban and rural; the poor grow in numbers; the broad intermediate stratum of middle peasants falls into ruin. The disintegration of the peasantry undermines the foundations of the work-payment system. The landlords increasingly pass over from labour-service economy to capitalist economy.
- 10. The home market is formed by the very development of capitalism. Extension of the home market signifies an increase in the demand for means of production and for means of subsistence. Manufacture, based on backward technique and hand labour, was not in a position to satisfy the demand for industrially produced commodities presented by the growing market. The need arose to pass on to machine industry.
- 11. The transition from manufacture to large-scale machine industry meant an industrial revolution. Of very great importance for the transition to machine industry were: the invention of the steam engine, improvement in the method of smelting metal, and the making of machines to produce machines. The machine conquered one province' of the production of commodities after another.
- 12. With the growth of capitalism there took place the process of capitalist industrialisation of the most important countries of Europe and America. Capitalist industrialisation begins as a rule with the development of light industry. In the industrialisation of capitalist countries a big role is played by the plundering of colonies and conquered countries and also the obtaining of loans on extortionate terms. Capitalist industrialisation is based on the exploitation of wage-labour and intensifies the ruining of the broad masses of peasants and craftsmen. It leads to a further growth in the social division of labour, completes the separation of industry from agriculture, and makes more acute the antithesis between town and country.
- 13. The capitalist factory is a large-scale enterprise, based upon exploitation of wage-workers and employment of a system of machines for producing commodities. Management in the

capitalist factory is despotic in character. In capitalist society the use of machines is accompanied by increasingly burdensome labour of the wage-worker, his intensified exploitation and the drawing into production of women and children, who are paid extremely low wages.

Capitalist machine production completes the process of separating mental labour from physical and sharpens the antithesis between them.

- 14. The development of large-scale machine industry leads to the growth of cities, to an increase in the urban population at the expense of the rural, to the formation of a class of wage-workers (the proletariat), and to growth in the numbers of the latter. The introduction of machinery into agriculture is an advantage for large-scale production. It leads to raising the productivity of labour and hastens, the process of disintegration of the peasantry. Under capitalism agriculture lags further and further behind industry, and this deepens the antithesis between town and country.
- 15. Large-scale machine industry plays a progressive role in history, leads to the growth of the productivity of labour and to the socialisation of labour by capital. The limits to the use of machinery by the capitalists are set by the fact that capitalists introduce machinery only where its price is less than the wages of the workers displaced by it.
- 16. Under the capitalist system the basis of production relations is capitalist ownership of the means of production which is used for exploiting wageworkers. Capitalism is commodity production at its highest level of development, when labour-power also becomes a commodity. Being a commodity, labour-power under capitalism has value and use-value. The value of the commodity labour-power is determined by the value of the means of subsistence necessary for the maintenance of the worker and his family. The use-value of the commodity labour-power consists in property of being the source of value and surplus-value.
- 17. Surplus-value is the value created by the labour of the worker in excess of the value of his labour-power and is appropriated by the capitalist without compensation. The production of surplus-value is the basic economic law of capitalism.
- 18. Capital is value which brings in surplus-value by exploiting wageworkers. Capital embodies the social relationship between the capitalist class and the working class. The different parts of capital play different roles in the process of producing surplus-

value. Constant capital is that part of capital which is spent on means of production; this part of capital does not create new value and does not change its magnitude. Variable capital is that part of capital which is spent on the purchase of labour-power; this part of capital grows as a result of the creation by the workers of surplus-value which is appropriated by the capitalists.

- 19. The rate of surplus-value is the proportion of surplus-value to variable capital. It expresses the degree of exploitation of the worker by the capitalist. The capitalists raise the rate of surplus-value by two methods-by the production of absolute surplus-value and by the production of relative surplus-value. Absolute surplus-value is surplus-value created by means of lengthening the working day or raising the intensity of labour. Relative surplus-value is surplus-value created by means of shortening necessary labour-time and correspondingly increasing surplus labour-time.
- 20. The class interests of the bourgeoisie and the proletariat are irreconcilable. The contradiction between the bourgeoisie and the proletariat is the main class contradiction of capitalist society. The bourgeois State is the dictatorship of the bourgeoisie which functions as an organ for the protection of the capitalist system and for holding down the working and exploited majority of society.
- 21. The contradiction inherent in the capitalist mode of production, which is a product of the exploitation of man by man will heighten and eventually necessitate the collapse of the capitalist mode of production.
- 22. In capitalist society wages are the monetary expression of the value of labour-power, its price, appearing to be the price of labour. Wages hide the relationship of capitalist exploitation, creating the false impression that all the worker's labour is paid for, whereas in reality wages constitute only the price of his labour-power.
- 23. The main forms of wages are time wages and piece wages. Under the time-wage system the size of the worker's wage-packet depends on the time he spends at work. Under the piece-wage system the size of the worker's wage-packet depends on the number of articles he produces. For the purpose of increasing surplus-value the capitalists employ a variety of sweating systems of wage-payment, which lead to a tremendous increase in the intensity of labour and to an accelerated wearing-out of labour-power.

- 24. Nominal wages are the amount of money received by the worker for the labour-power which he sells to the capitalist. Real wages are wages expressed in terms of the worker's means of subsistence; they show what quantity of means of subsistence and services the worker can buy for his money wages.
- 25. As capitalism develops real wages fall. Unlike the prices of other commodities the price of labour-power, as a rule, fluctuates below its value. This is due above all to the existence of unemployment, to extensive use of female and child labour and to the paying of extremely low wages to the agricultural workers and also to the workers in the colonial and dependent countries: An important factor in the decline in real wages is the rise in the prices of consumer goods, high rents and the growth of taxation.
- 26. The working class, united in trade unions, conducts a struggle to shorten working hours and raise wages. The economic struggle of the proletariat against capital cannot by itself free the proletariat from exploitation. Only with the liquidation of the capitalist mode of production through revolutionary political struggle can the conditions be eliminated under which the working class is economically and politically oppressed.
- 27. Reproduction is the continual renewal and ceaseless repetition of the production-process. Simple reproduction means renewal of production on an unchanged scale. Extended reproduction means renewal of production on an enlarged scale. Typical of capitalism is extended reproduction, interrupted by periodical economic crises, when production declines. Capitalist extended reproduction means continual renewal and deepening of the relations of exploitation.
- 28. Extended reproduction under capitalism presupposes accumulation of capital. Accumulation of capital means the fusion of part of surplus-value with capital, or the transformation of part of surplus-value into capital. Capitalist accumulation leads to an increase in the organic composition of capital, i.e., to the more rapid growth of constant capital as compared with variable capital. During capitalist reproduction the concentration and centralisation of capital takes place. Large-scale production has decisive advantages over small, by virtue of which the large and very large enterprises oust and subject to themselves the small and medium capitalist concerns.

29. With the accumulation of capital and the growth in its organic composition the demand for workers is relatively reduced. An industrial reserve army of unemployed is formed. The excess of labour-power in capitalist agriculture produced by the ruin of the basic masses of the peasantry leads to the creation of an agrarian surplus-population. The general law of capitalist accumulation is the concentration of wealth in the hands of the exploiting minority and the growth of poverty among the working people, i.e., the overwhelming majority of society. Extended reproduction under capitalism leads inevitably to relative and impoverishment of the working class. Relative impoverishment means the decline in the share taken by the working class of the income in the capitalist countries. impoverishment is the direct lowering of the standard of living of the working class.

30. The fundamental contradiction of capitalism is the contradiction between the social character of production and the private, capitalist form of appropriation. As capitalism develops, this contradiction becomes more and more acute, deepening the class antagonisms between bourgeoisie and proletariat.

3.3.2. Crises of Capitalism

The general crisis of capitalism is an all-round crisis of the world capitalist system as a whole. It embraces both economics and politics. Underlying it is the continually increasing disintegration of the world system of capitalism, from which country after country is falling away on the one hand and on the other, the growing economic might of the countries which have broken away from capitalism.

The general crisis of capitalism embraces an entire period of history, in the course of which take place the breakdown of capitalism and victory of socialism on a world scale. The general crisis of capitalism began during the first world war, and especially as a result of the falling away of the Soviet Union from the capitalist system.

The great October Socialist Revolution meant a radical turn in the world history of mankind, from the old, capitalist world to the new, socialist world. The splitting of the world into two systems--the system of capitalism and the system of socialism--and the struggle between these is the fundamental symptom of the general crisis of capitalism. With the splitting of the world into two systems two lines of economic development made their appearance. While the capitalist system becomes more and more entangled in insoluble contradictions, the socialist system

develops on a steadily upward-moving line, without crises and catastrophes.

The crisis of the colonial system of imperialism is one of the most important features of the general crisis of capitalism. This crisis consists of the development of the national liberation struggle, which shakes the foundations of imperialism in the colonies. The working class takes the lead of the struggle of the oppressed peoples for national liberation. The great October Socialist Revolution unleashed the revolutionary activity of the oppressed peoples and opened the epoch of colonial revolutions headed by the proletariat.

In the conditions of the general crisis of capitalism, as a result of the falling-away of a number of countries from the system of imperialism, of the increased impoverishment of the working people and also of the development of capitalism in the colonies, the problem of markets becomes more acute. A characteristic feature of the general crisis of capitalism is chronic undercapacity working of enterprises and chronic mass unemployment. Under the impact of the sharpening of the market problem, of the chronic under-capacity working of enterprises and of chronic mass unemployment there occur an aggravation of economic crises and essential changes in the capitalist cycle.

Self-Assessment Exercises 1

Lord and Serf

Attempt these exercises to measure what you have learnt so far. This
should not take you more than 5 minutes.
1. The mode of production is based on private ownership of
the means of production.
2. According to the Marxists, which of the following is not a
function of the bourgeois state?
A. Protection of capitalist private ownership of the means of
production
B. Facilitation of exploitation of the working people
C. Sustenance of the dictatorship of the bourgeoisie
D. Elimination of oppression in a class divided society.
3. The continued decline in profit margins and investment
opportunities at the domestic level will compel the dominant bourgeois
class to resort to
A. Colonialism
B. Exploitation
C. Imperialism
D. Antagonism
4. The two main classes under the capitalist mode of production
are
A Lower and upper class

B.

- C. Capitalist and peasant
- D. Bourgeoisie and Proletariat



3.4 Summary

The capitalist mode of production replaced the feudal era. This era was characterised by antagonistic class struggle between the bourgeoisie and proletariat. This class antagonism paved way for the emergence of the state, which as the Marxist posits worked in favour of the bourgeoisie to keep class antagonism in check. The class struggle cumulated in the dictatorship of the proletariats is expected to lay the platform for the eventual emergence of a socialist society through a victory of the proletariats.



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Possible Answers to Self – Assessment Exercises (SAEs)

Answer to SAEs 1

1.	Capitalist	
2.	D	
<i>3</i> .	C	
<i>4</i> .	D	

UNIT 4 THE COMMUNIST MODE OF PRODUCTION

Unit Structure

- 4.1. Introduction
- 4.2. Learning Outcomes
- 4.3. The Socialist Mode of Production 4.4. The Communist Mode of Production
- 4.5. Summary
- 4.6. References/Further Readings



4.1 Introduction

The communist mode of production or what is generally called communism is the picture of a good future envisioned by Marx and Engels. It is expected to be classless and devoid of exploitation of man by man. However, at the exit of the capitalist mode of production, the socialist mode of production will emerge, which is transitory between capitalism and communism. It is the mode of production. This unit examines the nature and functioning of a socialist society. It further examines its relationship to the communist mode of production. Specifically, attempts were made to identify the background to a classless society uninhibited by the intricacies of private property.



4.2 Learning Outcomes

At the end of this unit, you should be able to:

- Define socialism
- Know the nature of a socialist society
- Understand the basic features of communism
- Apply the principles of communism to any modern society.



4.3. The Socialist Mode of Production

The classic of Marxism-Leninism discovered the laws governing the emergence, development and collapse of capitalism by studying the course of economic development of society. Socialism is a middle ground between laissez-faire capitalism and central-planning model as evident in communism.

The aggravation of the general crisis of capitalism which took place after the second world war led to a further impoverishment of the proletariat. Seeking maximum profits, the monopolies are increasing the exploitation of the working people. Monopoly capital is transferring on to the backs of the working people the ruinous consequences of the war and of militarisation of the economy.

The monopolies supported, by the reactionary trade union leaders seek to lower the workers' real wages through "freezing" nominal wages, i.e., preventing them from rising in conditions in which inflation prevails and the burden of taxation is growing. Inflation produces an increase in the cost of living and a rapid rise in the prices of consumer goods, a widening of the gap between nominal and real wages. External expansion and the militarisation of the economy of the capitalist countries take place at the price of a burden of taxation which weighs upon the working people. One of the factors in the reduction of the standard of living of the working class is the rapid rise in rents. The decline in real wages leads to a worsening of the nutrition of the working population.

The position of the working intelligentsia in the capitalist countries is deteriorating; unemployment is increasing amongst them, and their incomes are falling as a result of the rise in the cost of living, the growth of taxation, and inflation.

Real wages in the U.S.A. and Britain and especially in France and Italy have markedly declined as compared with pre-war. Thus, for example, in France the purchasing power of the average hourly wages was in 1955 about half what it had been before the war (Marxist Writers' Achieve).

Along with the sharp fall in the purchasing power of money the cost of living grew considerably in the capitalist countries in relation to the prewar figures. In 1954 in the U.S.A. it was 2.9 times pre-war, in France more than 30 times and in Italy more than 60 times (Marxist Writers' Achieve).

In 1952, in spite of the increase in war production, there were reckoned to be in the U.S.A. not less than 3 million wholly unemployed and 10 million partly, and in Western Germany nearly 3 million wholly and partly unemployed. Italy had more than 2 million wholly unemployed and an even larger number partly unemployed. In Japan there were about 10 million wholly and partly unemployed. In the U.S.A. at the beginning of 1954 the number of wholly unemployed reached 3.7 millions, and that of partly unemployed 13.4 millions (Marxist Writers' Achieve).

In the U.S.A. direct taxes in the 1953-4 budget year were nearly twelve times as great as in the 1937-8 budget year, even if the fall in the

purchasing power of money be taken into account. In the Western European countries, where, too, the tax-burden was very heavy even before the war, taxes likewise grew in this period; in Britain they were doubled, in France multiplied by 2.5 and in Italy one and a half times. At the beginning of 1955 the rent paid by a U.S. worker's family was more than double what it had been in 1939 (Marxist Writers' Achieve).

According to figures issued by the Bureau of the Census, in 1949 in the U.S.A. 72.2 per cent of all American families had incomes below the extremely meagre official subsistence minimum; 34.3 per cent had incomes which were less than half of this minimum, 18.5 per cent less than a quarter, and 9.4 per cent less than an eighth (Marxist Writers' Achieve).

The worsening of the material situation of wide sections of the population of the capitalist countries leads to a growth of unrest and discontent among the masses, who react more and more actively against the oppression of monopoly capital. This is expressed in an upsurge of the strike movement in the capitalist countries, in a strengthening of the progressive trade unions which are united in the World Federation of Trade Unions set up in 1945, in the growth of the Communist Parties and extension of their mass influence, in the strengthening of the political activity of the working class. The Communist Parties and progressive trade unions, firmly rebuffing the splitting activity of the right-wing Socialists and reactionary trade union leaders, are educating the working class in the spirit of proletarian solidarity, in the spirit of struggle for liberation from imperialist oppression.

However, it is interesting to note that the victory of the Great October Socialist Revolution of Russia in 1917 ushered in a new era in the development of human society and showed that capitalism had outlived itself, that capitalist relations of production had become a major brake on the development of the productive forces. A new society known as socialism was built for the first time ever in the Union of Soviet Socialist Republic (USSR).

Marx had always been optimistic that capitalism must inevitably give way to the new society which he referred to as *Socialism*. He further contended that the replacement of capitalism by socialism cannot, however, take place spontaneously. The only way that an end can be put to the bourgeoisie system is through a nationwide struggle, a proletarian revolution that deprives the capitalist and their supporters their power and the opportunity to oppress and exploit the proletarian class. As such, he maintained that socialism cannot be realized without revolution. It needs destruction and dissolution. Revolution is needed in order to eliminate private ownership i.e. to take all the basic means of production out of the

hands of the capitalist and the bourgeoisie state and transfer them to the whole nation, to establish public socialist ownership.

The transition from capitalism to socialism is governed by laws common to all countries that set out to building socialism. These are:

- i. Conquest of political power by the working class and establishment of a dictatorship of the proletariats.
- ii. A union of the working class and the bulk of the peasantry and all other strata of the working people.
- iii. Elimination of capitalist property and establishment of public ownership of the means of production.
- iv. A gradual socialist transformation of agriculture on the basis of cooperation as practiced in the Kibbutz system in Israel.
- v. Planned balanced development of the national economy geared to building socialism and communism and raising the working peoples' standard of living.
- vi. A socialist revolution in spheres of ideology and culture and the creation of a numerous intelligentsia devoted to the working class and the working people, as well as the cause of socialism.
- vii. Elimination of national oppression and establishment of equality of rights and fraternal friendship between nations.
- viii. Consolidation and development of the socialist state, defence of the gains of socialism against attacks by external and internal enemies, and
- ix. Solidarity of the working class of a given country with that of other countries, i.e. proletarian internationalism.
- x. Nationalization of the means of production.

Samuelson and Nordhaus (2002) identified the following features as characteristics of socialism:

- **a. Government Ownership of Productive Resources.** Socialists traditionally believed that the role of private property should be reduced. Key industries such as railroads and banking should be nationalized (that is, owned by the state). However, the enthusiasm of state-owned enterprises has ebbed in many developed democracies in recent times as a result of their poor performance.
- **b. Planning.** Socialists are suspicious of the chaos of the market place and question the allocational efficiency of the invisible hand. They insist that a planning mechanism is needed to coordinate different sectors. In recent years, planners have emphasized subsidies to promote the rapid development of high technology industries, such as micro electronics, aircraft manufacture and

biotechnology; these policies are sometimes called "industrial policies".

- c. Redistribution of Income. Inherited wealth and the highest incomes are to be reduced by the militant use of government taxing powers; in some West European countries, marginal tax rates have reached 98%. Government social security benefits, free medical care and cradle to grave medical services paid for with progressive taxes increase the well-being of the less privileged and guarantee minimum standard of living.
- **d. Peaceful and Democratic Evolution.** Socialists often advocate the peaceful and gradual extension of government ownership-evolution by ballot rather than revolution by bullet.

Self-Assessment Exercises 1

Attempt these exercises to measure what you have learnt so far. This should not take you more than 5 minutes.

- 1. The ___ mode of production emerged immediately after the end of the capitalist mode of production.
- 2. Conquest of political power by the working class and establishment of a dictatorship of the ____
- 3. The core of socialism is the establishment of ___ ownership of the means of production.
- A. Public Private partners
- B. Public
- C. Private
- D. Supranational

1.3. The Communist Mode of Production

From generation to generation, working people have dreamed of a happy life, free from slave labour for exploiters. Nevertheless, this dream was not to come true for a long time. People did not know the way to liberation. The great leaders of the working class Marx, Engel's, and Lenin showed them the way to a bright future for mankind, that is, *the Religion of Communism*, that is, (a religion without a god).

Proponents of this ideology maintain that communism fulfils the historic mission of freeing all people from social inequality, from all forms of oppression and exploitation, from the horrors of war, and establishes peace, labour, freedom, equality, fraternity and happiness for all people on earth. Indeed, in the *Manifesto of the Communist Party*, Marx and Engels (1848) proclaimed as follows: "Workers of All Nations Unite... You Have Nothing to Lose but Your Chains."

In its evolution, the communist society passes through two stages in its development: the first called socialism (which is seen as the transitory phase from capitalism to communism), and the second, higher stage, called communism. The ultimate goal of the working people's liberation struggle in all countries is to build *Heaven* in communism. Consequently, Lenin proclaimed that as we begin socialist reforms, we must have clear conception of the goal towards which these reforms are in the final analysis directed, that is, the creation of a communist society.

Marx, Engels and Lenin were of the view that the communist socioeconomic formation, which replaces capitalism, will not appear all at once in its final form. They maintained that the communist society cannot be built immediately after the working class has seized political power. The building of communism requires considerable time and hard work by the working class, peasantry and the intelligentsia. Society cannot transfer to communism directly from capitalism. It makes the transition from capitalism to socialism because of a resolute struggle and only then can socialism develop into communism.

Describing the two phases of the communist socio-economic formation in their work, *A Critique of the Gotha Programme*, Marx and Engels (1875) wrote that socialism and communism constitutes different stages in the economic maturity of the same mode of production. The first stage is socialism, which will be followed by communism. Under socialism, Marx insist that this stage is not a complete communist society that has developed on its own basis, but one that retains in every respect, the blemishes (economically, morally and intellectually) of the old society. Lenin noted that the only scientific distinction between socialism and communism is that the first term implies the first stage of the new society arising out of capitalism, while the second implies the next and higher stage. The development of socialism leads to the second, higher phase-that of communism. This socialism and communism are two stages or phases of the same epoch. The central features of the communist society are summarized as follows:

- i. Dictatorship of proletariat
- ii. Abolition of private property
- iii. Existence of a classless society
- iv. The state withers away as an instrument of oppression
- v. Social surplus will be shared from everyone according to ability to everyone according to need.

Self-Assessment Exercises 2

Attempt these exercises to measure what you have learnt so far. This should not take you more than 5 minutes.

- 1. ___ is the perfect mode of production that was envisioned by Marx.
- 2. The major collaborator of Karl Marx is _____
- A. Nicolo Machiavelli
- B. Raph Miliband
- C. Frederick Engels
- D. Arthur Nzeribe
- 3. Which of the following is not a feature of communist mode of production? A. Dictatorship of the Proletariats
- B. Existence of a classless Society
- C. Private Ownership of the Means of Production
- D. Abolition of Private Property



4.5 Summary

The socialist mode of production in the views of Marx was a step before the ultimate aspiration of the bulk of the working class. This era is characterized by the collective ownership of means of production and exchange and the abolition of private property. Specifically, the communist era, which is the highest stage of socialism, is also described as *heaven* for the working class.



4.6 References/Further Readings

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- Ryndina, M.N.; Chernikov, G.P. and Khudokormov, G.N. (1980). Fundamentals of Political Economy. Moscow: Progress Publisher.

Samuelson, P.A. and Nordhaus, W.D. (2002). *Economics*. New Delhi: Tata McGraw Hills.



Possible Answers to Self – Assessment Exercises (SAEs)

Answer to SAEs 1

- 1. Socialist
- 2. Proletariat
- 3.

Answer to SAEs 2

- 1. Communism
- 2. *C* 3. *C*

MODULE 4: CRITICAL ISSUES IN POLITICAL ECONOMY

Unit 1: Colonialism, Neo-Colonialism, and ImperialismUnit 2: Globalisation, and Multinational Corporations

Unit 3: Bretton Woods System

Unit 4: International Economic Relations

UNIT 1 COLONIALISM, NEO-COLONIALISM, AND IMPERIALISM

Unit Structure

- 1.1 Introduction
- 1.2 Learning Outcomes
- 1.3 Colonialism and its Impact on Africa
 - 1.4 Neo-Colonialism
 - 1.5 Imperialism
- 1.6 Summary
- 1.7 References/Further Readings/Web Sources
- 1.8 Possible Answers to Self Assessment Exercises



1.1 Introduction

Most parts of Africa experienced European colonialism between the 19th and 20th centuries. This phenomenon set the stage for the present asymmetrical relations between Africa and the western world in the international division of labour and exchange. This unit examines the incidence of colonialism, its impacts on Africa and the extension of the frontiers of colonialism to another dimension often described as neo-colonialism. It also examines the various perspectives on the concept of imperialism. Specifically, it highlights the views of Hobson, Lenin and Hilferding. It also highlighted the liberal views on the concept.

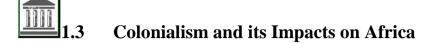


1.2 Learning Outcomes

At the end of this unit, you will be able to:

- Define the concepts of colonialism, neo-colonialism, and imperialism
- Discuss the nature colonialism and its impact on Africa.
- Appraise the operation of neo-colonialism.

• Analyse the contribution of colonialism, neo-colonialism and imperialism to the problems of Africa's development.



The 15th Century marked a significant stage in the wave of empire building by many European countries. This was made possible as a result of innovations in science and military technology as major European powers such as Spain, Portugal, Britain and France deployed explorers and military power in the quest for commercial advantage overseas. As merchant embarked on intense pursuit for market advantages, European governments exploited the opportunity to provide protection to their nationals and seeks political control of overseas territories. The economic strategy underlying the relationship between colonies and colonisers during this era of classical imperialism is described as *mercantilism*. In essence, this refers to the philosophy and practice of governmental regulation of economic life to increase state power and security. State power was assumed to flow from the possession of national wealth measured in terms of gold and silver.

The quest for accumulation of wealth propelled states to pursue and maintain favorable balance of trade. One way through this was pursued was through the scramble for colonies as this provided the opportunity for monopoly capitalism which shut out commercial competition and guaranteed exclusive access to untapped markets and sources of cheap materials. Consequently, each state was determined to monopolise as many oversea mercantile opportunities as possible (Cohen; 1973). Adam Smith captured this in his *Wealth of Nations*. He argued that national wealth was maintained not through the accumulation of gold and silver but through the capital and goods, they could buy. Consequently, a system of free international trade consistent with the precepts of laissez-faire economics became the accepted philosophy governing international economic relations (Kegley and Wittkopf; 1989).

Colonialism implies foreign political domination and subordination of oversea territories for effective economic exploitation. The process ensured the continued supply of raw materials and food to meet the needs of the industrialised nations of Europe. Colonialism in the views of Offiong was not merely a system of exploitation but one whose purpose was to repatriate the profit to the metropole. He further maintained that colonialism never exported capitalism to the third world; instead, it sapped the colours of the necessary resources that could have been the basis for investment, and destroyed local capitalism through outrageous and rapacious competition (Offiong; 2001:43).

Colonial rule in Africa was an act of political expropriation made possible by the use of force and the threat of the use of force to extract surplus from the continent. This instrument of force manifested in the series of repressions and coercions on the 117ivilizin which to Adeniran (1983: 195), resulted not only in the loss of their land to the colonisers but also in loss and re-orientation of their culture. The eventual political domination of Africa was accomplished using the force of superior ammunitions. The first two decades of the twentieth century, was an era dominated by the raw and brutal intrusion by the developing colonial state and powers of metropole Europe into the lives and cultures of Africans?

The transition from the trans-Atlantic slave trade to colonial occupation of Africa was 117ivilizing117at by not only violence but also deceits, trickery and outright falsehood. This transition was the logical consequence of the abolition of slave trade, independence of America (1776) and the challenge of the lucrative legitimate trade, which in itself stimulated the drive for effective political control of the bulk of Africa by metropole Europe.

Some available historical records demonstrate that Europe began its conquest of Africa back into the fifteenth century with the 117ivilizing117a of Angola (1442) and Mozambique (1505) by Portugal. Between the seventeenth and eighteenth centuries, France occupied parts of Senegal (1637), Reunion (1663) and Mauritius (1715) while the Dutch settled in the Cape in 1652. The British occupied Sierra Leone in 1808 and Cape Colony in 1814; the French took Algiers in 1830 and Equatorial Africa in 1841. In 1842, the Gold Coast (now Ghana) became a British protectorate while Natal was declared a British colony in 1843. Britain began the invasion of present Nigeria with the conquest of Lagos in 1851. They further occupied Basutoland in 1868, invaded Ashanti in 1873 and annexed Transvaal in 1877, while the French invaded Tunis in 1881 (Offiong; 2001).

The motives of European colonial enterprise in Africa are reflected in the 1878 address of Henry Morton Stanley (the Navigator) to the assembled business persons of Birmingham Chamber of Commerce. Here, Henry the Navigator stressed that he has thrown open the gateway of Africa to their enterprise. In his words,

There are forty million naked people beyond the gateway and the cotton spinners of Manchester are waiting to clothe them. Birmingham's foundries are glowing with the red metal that shall presently be made into ironwork in every fashion and shape for them, and the trinkets shall adorn those dusky bosoms: and the Ministers of Christ are zealous to bring them, the poor benighted heathen, into the Christian fold (Davidson; 1984: 172).

The quest by European traders of diverse national background to gain advantage in the African enterprise turned the field by trading in Africa into a business of territorial claims. It was the attempt to work out acceptable procedures that will guide the scramble and partition of Africa and avert the outbreak of hostilities among the competing European powers that propelled Otto Von Bismark of Germany to convene the Berlin-Africa Conference, which met, between December 1884 and April 1885 without African representatives. Besides, the condemnation of the slave trade, prohibition of the sale of liquor and fire arms in certain areas, and the expression of concerns for religious instruction for the African natives, the conference produced the Berlin Act (1885) which set out the rules of competition to guide the European powers in the quest for colonies (Offiong; 2001:9). The Act also had the aim of fostering the development of trade and 118ivilizing 118a among the natives and further provided for the 118ivilizing118ati of the entire Central Africa in an event of European war (Fordman: 1968).

In pursuit of the provisions of the Berlin Act, King Leopold of Belgium seized Congo. In the same year, the German East Africa was established. Other European powers followed suit – Sudan was seized in 1889, Zanzibar 1890, Nyasaland 1891, Northern and Southern Rhodesia 1891, Bachuanaland 1891, Uganda 1893, Dahome 1894, Kenya 1895, Nigeria 1900, Italian Somaliland 1905, Libya 1911 and Spanish Morocco 1912. Only Ethiopia, which was temporarily occupied by Fascist Italy in 1935, remained 118ivilizing118. (Woddis; 1971)

Besides the glorification of the European 118ivilizing118a of Africa as an act motivated by the zeal to bring the continent of Africa to the benefits of 118ivilizing118a, the actual conduct of the European powers demonstrates that Europe was in Africa for the sole purpose of 118ivilizing118ati. King Leopold of Belgium made this position clear in a letter to Baron Solvyns in 1879 that his mission in Africa was to miss no chance of getting his share of the *Magnificent African Cake*. (Davidson; 1984:

In 1885, Jules Ferry, the French Premier of the Chamber of Deputies highlighted the dominant reasons for colony acquisition as:

- i. In order to have access to the raw materials of the colonies
- ii. In order to have markets for the sale of manufactured goods of the home country and
- iii. As a field for the investment of surplus (Offiong; 2001: 63). Albert Sarrant, the French Secretary of State for Colonies reiterated this in 1923 at the Ecole Colonale in Paris. In his words:

What is the use of painting the truth? At the start, 119ivilizing119a was not an act of 119ivilizing119a, was not a desire to 119ivilizi. It was an act of force motivated by interests. An episode in the vital competition which, from man to man, from group to group, has gone on ever increasing... the origin of 119ivilizing119a is nothing else than the enterprise of individual interests, or one sided and egoistical imposition of the strong upon the weak (Offiong; 2001).

The above statements from some key actors in the colonial enterprise go a long way in authenticating the assertion that the imperial conquest of Africa by metropole Europe was undertaken to tap the resources of the former in order to help solve the economic problem of Europe. As Freund put it, beneath the surface of colonial political and administrative policy laid the unfolding process of capital accumulation (ibid).

Offiong (2001) notes that the period from the Berlin Conference to the end of the First World War in 1919 was 119ivilizing119at by imperialist wars against established African kingdoms and empires. Several punitive expeditions against restive groups were administered to force African resistance to colonial domination to submission. In some areas in tropical Africa where pastoralists attempted to escape from the burden of colonial exploitation, the colonial authorities adopted the *Scorched Earth* policy which ensured that anything that will be relevant to the enemy (in this case, the natives) including the homes, animal and crops were destroyed. Consequently, even in areas where the colonial authorities succeeded in establishing effective colonial control, it was at great expense to the continent of Africa.

The eventual imperial domination of Africa by metropole Europe was accompanied by the various colonial administrations over the emasculated territories. European officials had full possession of the constitutional powers within the territories under the protection of European controlled armed forces. They controlled the civil service, judiciary, prison service and educational system, all of which were designed to buttress the interests of the colonial metropolis. The efforts of the colonialist were complemented by the activities of Christian missionaries. It was the missionaries that helped the colonialist to draft the fraudulent agreements and treaties and further helped to convince the African chiefs to sign these phoney treaties, which formed the basis for the invasion and occupation of African territories. This complicity prompted Jomo Kenyatta to proclaim that:

When the missionaries came, the Africans had the land and the Christians, the bible. They taught us to pray with our eyes closed, when we opened them, they had the land and we had the bible. (Kenyatta in Gordon and April; 1992: 236)

Colonial authorities in Africa designed several draconian laws that facilitated the subjugation and exploitation of Africa. Some of the laws banned strikes, trade unions, and as in francophone Africa, proscribed political parties and political activities till adoption of the *Loi Cadre* in 1956, suppressed criticisms, arrested and banished political leaders and severely restricted franchise in the area where it was granted. It is no vain assertion to reason that the epidemics of corrupt and oppressive political leadership that is now prevalent in most parts of Africa are but a colonial heritage, especially as African political leadership simply inherited the structures and orientations left behind at independence by colonial Europe.

One of the obnoxious policies of the colonial era was the use of *Forced* Labour. This involved Africans working compulsorily for the colonial authorities and in some cases in plantations owned by European farmers. People were conscripted to build roads and rails lines. Some 20,000conscripted workers died during the construction of the rail that linked the French side of Stanley Pool on the Congo River to the sea, the Congo Ocean. (Offiong; 2001: 60) Native Congolese were also compelled to surrender certain percentage of rubber for a minimal price. The effect of these was that the Congolese had to travel far away from home to work under extremely dangerous conditions and by extension, had to neglect the 120ivilizingn of basic food crops for domestic consumption. The Belgians enforced this requirement through mass terror, which involved armed expeditions, the use of hostages, mutilations and outright killing. Any resistance from the natives brought merciless retribution by colonial expeditions and the flight of the people away from the rivers of Congo to less ecologically favourable areas.

The 120 iviliption of forced labour in Italian Somaliland, during the 1930s by a colonial official was that it remained 'a good deal worse than slavery'. A slave cost money and will be cared for by his owner, as he cares for his donkey, and if a slave should die, the owner must buy another. But when a Somali native dies after being assigned to his Italian colonial employer, or becomes unfit to work, it is merely a matter of his employer asking the government to provide another one for nothing. There existed near similar situation in almost all the colonies where forced labour was applied. Describing the situation in colonial Mozambique, Joan Maquival gives a picture of his experience with forced labour:

The 120 ivilizy paid money to the ... government and then the government arrested us and gave us to the company. I began working for the company when I was twelve... The whole family worked for the company: my brothers, my father ... my father earned 150 escudos a month (\$5.30). He had to pay 195 escudos tax yearly. We didn't want to work for the

company, but if we refused, the government circulated photographs and manhunt was started. When they caught them, they put them into prison, and when they came out of prison, they had to go and work without pay... Thus in our own fields, only our mothers were left... All we had to eat were the little our mothers were able to grow. We had to work on the tea plantations but we didn't know what it tasted like. Tea never came to our homes. (Roberts and Barnes, 1974).

Gabriel Mauticio Nantombo supported this view with his own experience of colonial imperialism in Mozambique:

When the company came to exploit our region, everyone was forced to cultivate one field of cotton... The time of cotton growing was a time of great poverty, because we could only produce cotton; we got a poor price for it and we did not have to produce cotton. The people didn't want to. They knew that cotton is the mother of poverty, but the company was protected by the government. We knew that anyone who refused to grow it would be sent to the plantation in Sao Tome where he would work without any pay at all. So as not to leave the family at all, we had to grow cotton. The company and government work together closely to enforce the system (ibid).

Beyond the forced labour, the colonial authorities adopted the method of taxation to get labour to work in the plantations and mines. The usual taxes were the poll tax for each animal, hut tax for each house and head tax for each individual. His policy of taxation forced the natives to leave their individual and family farms to work in mines and plantations owned and controlled exclusively by Europeans. Forced migrations in search of paid jobs resulted in the abandonment of traditional subsistence agriculture upon which the African family hood depended to work in European plantations. It also resulted into excessive labour, which succeeded, in putting down the wages payable to Africans. This plunder of the African economy contributed immensely to the continents underdevelopment.

Colonial exploitation of Africa also manifested in the wage discrepancy between Europeans and African workers. For instance, the records of an American shipping company, Farrell Lines show that in 1955, of the total amount spent on loading and discharging cargo moving between Africa America, 1/6 went to Africans and 5/6 went to non-Africans for loading and offloading the same amount of cargo. Furthermore, the Nigerian coal miner in Enugu earned 1/- per day for working underground and 0/9d per day for jobs on the surface during the colonial era, while their counterparts in Scotland and Germany earned far much more (Rodney, 1971). This also extended to the colonial civil service. European civil servants in the Gold Coast (now Ghana) received an average of 40 pounds per month,

with quarters and other privileges. Africans got an average salary of 4 pounds. In Morocco and Algeria, the wages of Africans when compared to their Europeans counterparts were 16% and 25% respectively. In East Africa, while Lord Delamere controlled 100,000 acres of Kenya's land, the Kenyan had to carry a *Kipande* pass in his own country to beg for a wage of 15/- or 20/- per month. In Northern Rhodesia, Africans were paid three (3) pounds per month for similar jobs, which their European counterparts were paid 30 pounds per month (Rodney, 1971).

It is noteworthy to highlight that such colonial investment in Africa such as roads and rail network, were not aimed at the economic development of the colonies, rather, they were an extension of the plots by imperial Europe to siphon the bulk of Africa's wealth. For instance, the roads and railway networks in Africa were designed to link major minerals and plantation towns within the hinterland and eventually connect them to the coastal states to facilitate the exploitation and exportation of Africa's resources and eventual distribution of imported European products.

In Nigeria, the colonialist 122ivilizing122 economic activities, thereby preventing the emergence of an indigenous entrepreneurial class. Taubman Goldie successfully eliminated Africans from the lucrative trade along the Niger Delta by imposing taxes, which the Africans could not afford. Africans were also charged more export fees than the Europeans. (Crowder; 1968) In the late 1930s, the United African Company (UAC), controlled over 40% of Nigeria's export and import trade, and in 1949, it controlled 34% of commercial merchandise imports in the country, and bought on behalf of the Nigerian Marketing Boards, 435 of all Nigerian non-mineral exports. The UAC, John Holt, Patterson Zochonis (PZ), the Société Commerciale de l'OuestOccidentale (SCOA) and the Union Trading Company (UTC) formed the Association of West African Merchants (AWAM) and through it, made agreements and 122ivilizied export quotas. Thus, by 1949, AWAM controlled about 66% of all imports and almost 70% of the exports in Nigeria. They also controlled most retail and semi- wholesale trade all over the country. (Offiong, 1980) Europeans further dominated even the banking and shipping business.

Education was another instrument of colonial exploitation of Africa. This is because the nature of colonial education was aimed at producing the relevant low cadre work force to facilitate the attainment of European colonial interest and 122ivilizing122ati in the continent. It must be 122ivilizi that this motive is indeed a negation of the fundamental role of education, which seeks to preserve the social structures and lives of the individual members as well as the promotion of social change in the society.

Colonial education in Africa simply focused on a few Africans who will assume low cadre position as clerks, interpreters and elementary teachers. The goal was to produce a body of subordinate workers that will help enhance the domination and expropriation of surplus from Africa to metropole Europe. This was not an educational system that emerged from African environment for the interest of the Africans, neither was it designed to boost the pride and confidence of the Africa recipients or to enhance the rational use of the wealth of the continent. Rather, colonial education in Africa was education for subordination, exploitation, the creation of mental confusion and the perpetuation of underdevelopment in Africa (Rodney; 1971: 264).

Indeed, colonial educational policies in Africa were 123ivilizing123at by limitation inside limitations. First, it was aimed at inhibiting mass enlightenment relevant for desirable social change and afterwards was inhibited by the political and financial calculations of the colonial administration especially as the metropolitan government and their African administration often claimed that there were insufficient funds to spend in education. For instance, in 1958, the British colonial office in Northern Rhodesia insisted that:

Until more money becomes available for the building of school, no rapid progress can be expected and the practical prospects of providing full primary education for all children therefore remains fairly remote (Offiong, 1980).

The lame attitude of the colonial authorities towards education in Africa is demonstrated in the meagre resources allocated to this sector of the budget of many African states. In 1935, the total allocation to the educational sector in the whole of French West Africa was only 4.03%. In the British colony of Nigeria, it was only 3.4% and as late as 1946, Kenya only apportioned 2.26% of its revenue to the education of Africans. The impact of this poor allocation was that, by 1938 only 22,000 people were enrolled in school in the whole of French Equatorial Africa (Chad, Central Africa Republic, Gabon and Congo Brazzaville) and the French provided education for 77,000 pupils in French West Africa with a population of at least 15 million (ibid).

On the political front, colonialism mangled polities, divided communities and coerced unrelated people into alien geopolitical clones, called states in Africa. This resulted into the fragmentation and in most instances, the erosion of traditional authorities. The emerging colonial state built and thrived on the overdeveloped coercive apparatus for the subjugation of the African natives. Resistance to colonial oppression was brutally suppressed. In Congo Leopoldville, King Leopold of Belgium reduced the population of that country from 20 million to 10 million inhabitants

within a decade. As such William Kornblum (Kornblum; 1998:189) never exaggerated by insisting that the fierce scramble by European powers for colonial acquisition in Africa led to the extermination of millions of natives in continent.

The emerging multi-ethnic and highly heterogeneous postcolonial state inherited these overdeveloped state structures. The quest to control the state and its apparatus and the increasing 124ivilizing124at and 124ivilizing124ation of the highly overdeveloped structure of the states in post-colonial Africa as well as the epidemics of leadership failures and gross abuse of state power has remained central to persistent crises of armed conflicts and underdevelopment in the continent.

In conclusion, one will subscribe to the position of John Randel (1996) that by siphoning surplus away from the Third World to which Africa belongs, the First world had enriched itself and that by keeping the Third world underdeveloped, the ruling bourgeoisie of the First world ensured a ready market for their finished goods and a cheap supply of raw material for their factories. From this, one can emphatically say that even if colonial imperialism was a 124ivilizing mission that for every cent invested in Africa by Europe, she took away hundreds.

Self-Assessment Exercises 1

Attempt these exercises to measure what you have learnt so far. This should not take you more than 5 minutes.

- 1. The process foreign political domination and subordination of oversea territories for effective economic exploitation is called ____
- A. Colonialism
- B. Domination
- C. Indirect rule
- D. Assimilation
- 2. Which of the following was not a focus of colonial education in Africa?
- A. To train people to assume low cadre position as clerks
- B. To train people who will be interpreters
- C. To train elementary teachers
- D. To train professionals to take over the governance in Nigeria
- 3. The emerging multi-ethnic and highly heterogeneous postcolonial state inherited _____ state structures
- A. Underdeveloped
- B. Undeveloped
- C. Overdeveloped
- D. Multiple

1.4. Neo – Colonialism

The second quarter of the twentieth century was marked by very significant global events like the outbreak of the Second World War (1939), signing of the Atlantic charter (1941), emergence of the United Nations Organisation (1945) and increase in the wave of nationalism in Africa and elsewhere. The logical consequence of these unfolding events was the emergence of new states, which gained political independence from the powers of metropole Europe. By the late 1960s, several African countries had gained political independence. It was with dismay that these countries realised to their chagrin that political independence never meant total independence. Neo-colonialism emerged as a higher form of exploitation of these new states, which were entrapped in the strangleholds of the western capitalist Europe.

In his essays on neo-colonialism, Nkrumah (1966) conceived it as the embodiment of Clientele sovereignty or fake independence characterised chiefly by the practice of granting a sort of independence by the metropolitan power, with the concealed intention of making the liberated country a client state and controlling it effectively by means other than political ones. In essence, neo-colonialism implies granting flag independence with one hand and taking back with another. Nkrumah further insisted that where neo-colonialism existed, the power exercising control is often the state which formerly ruled the territory in question. This is because a state in the grip of neo-colonialism is not master of its own destiny because neo-colonialism is the worst form of imperialism. It means power without responsibility for those who practice it and exploitation without redress for those who suffer from it.

Nkrumah further described neo-colonialism as a definite and last stage in the development of imperialism. This stage to him is more insidious, complex and dangerous than the old colonialism. It not only prevents its victims from developing their economic potentials for their own benefits, but it controls the political life of the country, and support the indigenous bourgeoisie in perpetuating the oppression and exploitation of the masses. Under neo-colonialism, the economic system and political policies of independent territories are managed and manipulated from outside, by international monopoly finance capital in league with the indigenous bourgeoisie. Communication, banking, insurance and other key services are controlled by neo-colonialist. (Nkrumah; 1973: 313)The multinational corporations and the International Financial Institutions (IFI) are the prominent channels through which neo-colonialism operates.

Woddis (1971:251), in his essays on neo-colonialism observed that as the intensification of the activities of national liberation movements in Asian and African countries in post-World War Two era, the emergence of the satellite socialist countries and peace movements in Europe and America, compelled the imperialist to retreat, it provoked new strategies for the continued economic domination and spread of political influence of the

colonial metropole on the third world. This strategy manifested in neocolonialism and its decisive element remained the economic control of erstwhile colonies by the big metropole.

The Third All African People's Conference held in Cairo in 1967, interpreted neo-colonialism as the survival of the colonial system in spite of formal recognition of political independence in the emerging countries, through indirect and subtle form of domination by political, economic or technical forces. (Voice of Africa: 1964) The apprehension of this Conference was reinforced at the First Afro-Asian and Latin American People's Solidarity Conference (FAALAPSC) held in Havana in January 1966. The Conference observed that:

To guarantee its domination, imperialism tries to destroy the national cultural and spiritual values of each country and forms an apparatus of domination which includes national armed forces docile to their policy, the creation of organs of repression, with technical advisers from imperialist countries, the signing of secret military pacts, the formation of regional and international war mongering alliances. It encourages and carries out coup d'état and political assassinations to ensure puppet government; at the same time, in the economic field, it resorts to deceptive formula, such as the so called Alliance for Progress, Food for Peace and other similar forms while using international institutions such as the International Monetary Fund (IMF) and International Bank for Reconstruction and Development (IBRD) to reinforce its economic domination. (FAALAPSC; 1966)

The dangers posed by imperial Europe to Africa and other third world countries were further elaborated at the Conference of Non-Aligned Countries at Cairo in October 1964. The Conference observed that imperialism used neo-colonial devices such as racial discrimination, economic pressures, interference, subversion, intervention and the threat of force to impose its will on independent nations. This position was reiterated at the Fourth Conference of Heads of States of Non-Aligned Countries (CHSNAC) at Algiers in September 1973. Here, the Conference lamented that:

Neo-colonialism not only hampers the economic and social progress of developing countries, but also adopts an aggressive attitude towards those who oppose its plans, trying to impose upon them political, social and economic structures which encourage alien domination, dependence and neo-colonialism. (CHSNAC; 1973).

The predominance of export of capital over the commodities was characterised by Lenin as a basic feature of imperialism. However, with the victory of nationalism in the bulk of colonised territories, there arose

improvement in the practice of naked imperialism in what came to be known as neo-colonialism. In this regard, Nehru (1962) cautioned in a letter to India, that:

Do not imagine that the empire of the United States is confined to the Philippine Islands. Outwardly that is the only empire they have got, but, profiting by the experience and troubles of other imperialist powers, they have improved on the old methods. They do not take the trouble to annex a country. Through the control of wealth, it is easy to control the people of the country and indeed, the land itself. And so without much trouble, or fiction with an aggressive nationalism, they control the country and share its wealth. This ingenious method is called economic imperialism. The map does not show it. A country may appear to be free and independent if you consult geography or an atlas. But if you look behind the veil, you will find that it is in the grip of another country or rather of its bankers and big business men.

The prominent vehicles for the operation of neo-colonialism are Multinational Corporations (MNCs) and Bretton Wood institutions.

Self-Assessment Exercises 2

Attempt these exercises to measure what you have learnt so far. This should not take you more than 5 minutes.

- 1. The continuity of exploitation of exploitation after political independence is called___
- A. Association
- B. Neo-imperialism
- C. Neo colonialism
- D. Neo-capitalism
- 2. Nkrumah further described ____ as a definite and last stage in the development of imperialism.
- A. Neo-colonialism
- B. Exploitation
- C. Nationalism
- D. Alienation

1.5. Imperialism

1.5.1. Nature and Meaning of Imperialism

Imperialism is "the economic control and exploitation of foreign lands arising from the necessity for counteracting the impediments to the accumulation of capital engendered by the internal contradictions of the domestic economy" (Ake, 1981:20). It is the policy of extending the rule or authority of an empire or nation over foreign countries, or of acquiring and holding colonies and dependencies. It is a practice where powerful nations seek to send and maintain control or influence over weaker nations or people. Quite often, the concept is used to explain the economic expansion of capitalist states. Generally, states become imperialist for several reasons, which may be economic, political or ideological.

Benjamin Cohen (1973) in his book, *The Question of Imperialism*, maintained that the imperial powers typically pursued their various interests overseas in a blatantly aggressive fashion. Bloody, one-sided war which Otto Von Bismarck described as *sporting war*, that considered native Africans in the contested territories as game became common place. Here, the powers were engaged in intense competition and diplomatic crises devoid of direct military conflict. This set the stage for imperialist competition in Africa.

Classical or liberal theorists insist that imperialism is not a product of capitalism but a response to certain maladjustments within the contemporary capitalist system which given the proper will, could be corrected. They however subscribe to the Marxist view that it was motivated by economic considerations. The presumed material needs of the advanced capitalist societies explained by Cohen as the 128ecognns for imperialism are;

- a. The need for cheap raw material to feed their growing industrial complexes,
- b. The need for additional markets to consume their rising levels of production, and
- c. The need for investment outlets to absorb their rapidly accumulating capital.

On their part, the world system analysts and liberal scholars have argued that imperialism was encouraged by the need of the hegemonic core state to maintain its privileged position in the international division of labour in the face of growing competition from the newly emerging core state of Germany and the United States of America. Hans Morgenthau for instance defined imperialism in terms of "the expansion of a state's power beyond its borders" (Palmer and Perkins 2007: 159).

This view is however contrasted by most scholars of the Marxian tradition who locate the source of conflict to economic factors. Marx, who espoused the ideas of a classless society, argues that conflict arises initially out of the antagonistic contradiction that 129ecognized129es the struggles between the existing socio-economic classes in a society (Marx and Engels; 1842). He evolved a theory of history based on dialectical materialism in which economic substructure determines the socio-cultural and political superstructure of the society. Here, he who controls the economic system controls the political system. His study of history and of 19th century Britain led him to conclude that each epoch of history contains clashing forces or a dialectics, from which a new epoch emerges. The peak of the class conflict for Marx manifests in a capitalist society where the bourgeoisie which controls the means of production, exploits the workers for his labour and extorts the surplus value from and wage labour. The evident class conflict between the capitalist and proletariat would lead to a socialist order (Marx; 1954). Though Marx 129ecognized the global thrust of capitalism, he did not espouse the concept of imperialism. Subsequent scholars of Marxian orientation extended the crude economics of Karl Marx in the theory of imperialism. It is their view that the only way to end imperialism is to end capitalism.

1.5.2. Contending Views on Imperialism

Hobson a major proponent of imperialism posits that it results from maladjustment within the capitalist society, in which a wealthy minority over-saves while an impoverished or barely subsistent majority lacks the purchasing power to consume all the fruits of modern industry. Capitalist societies are thus faced with the critical dilemma of over production and under-consumption. If the capitalist decide to redistribute their surplus wealth in the form of domestic welfare measures, there will be no serious structural problem. However, the capitalists seek instead to reinvest their surplus capital in profit-making ventures abroad. It is his view that imperialism is the result of the endeavour of the great controller of industry to broaden the channel for the flow of their surplus wealth by seeking foreign markets and foreign investments to take off the goods and capital they cannot sell or use at home (Hobson, 1902).

In his book, *Imperialism: The Highest Stage of* Capitalism, V. I. Lenin (1939) described imperialism as the monopoly stage of capitalism i.e. it is the dominance of finance capital. Lenin located the cause of imperialism in capitalist quest for profitable oversea outlet for surplus finance capital. This implies that finance capital spreads its net over all countries of the world. In his polemic with Kautsky, Lenin maintained that the characteristic feature of imperialism is precisely that it strives to annex not only agrarian territories, but even the most highly industrialised

regions (German appetite for Belgium; French appetite for Lorraine) because:

- i. The fact that the world is already partitioned obliges those contemplating a re-division to reach out for every kind of territory; and
- ii. An essential feature of imperialism is the rivalry between several great powers in the striving for hegemony, that is, for the conquest of territory, not so much directly for themselves as to weaken the adversary and to undermine his hegemony.

However, the direction of expansion remains mostly towards the backward areas of the world where export capital is more attractive in terms of profit (Saini, 1981). Lenin further identified four factors that facilitated the emergence and sustenance of imperialism. These are as follows:

- i. The concentration of production combines, cartels, syndicates and trusts.
- ii. The competitive quest for sources of raw materials,
- iii. The development of banking oligarchies, and
- iv. The transformation of the old colonial policy into a struggle for spheres of economic interest in which richer and more powerful nations exploit the weaker ones (Lenin, 1939).

Thus imperialism for Lenin is capitalism in that stage of development characterised by the following:

- i. The dominance of monopolies and finance capital has established itself;
- ii. There is merging of industrial and finance capital;
- iii. The export of capital over export of commodity has pronounced importance;
- iv. The division of the world market between the international capitalist hegemons has begun; and
- v. The division of all territories of the globe among the great capital powers has been completed (Lenin; 1939).

Scholars of Marxian orientation extol the import of capital in imperialism and argue that it is the cause of international conflict. The critics of the economic interpretation of imperialism posit that this thesis errs in the attempt to build a universal law of history upon the limited experience of a few isolated cases. It is in line with this that Kautsky argued that imperialism is not a stage in the development of capitalism as Lenin advocated a deliberate policy of European states.

The First Afro-Asian and Latin American People's Solidarity Conference (FAALAPSC) held in Havana in January 1966 observed that:

To guarantee its domination, imperialism tries to destroy the national cultural and spiritual values of each country and forms an apparatus of domination, which includes national armed forces docile to their policy, the creation of organs of repression, with technical advisers from imperialist countries, the signing of secret military pacts, the formation of regional and international war mongering alliances. It encourages and carries out coup d'état and political assassinations to ensure puppet government; at the same time, in the economic field, it resorts to deceptive formula, such as the so called Alliance for Progress, Food for Peace and other similar forms while using international institutions such as the International Monetary Fund (IMF) and International Bank for Reconstruction and Development (IBRD) to reinforce its economic domination.

Similarly, the Fourth Conference of Heads of States and Governments of Non-Aligned Countries (FCHSGNCs) at Algiers in September 1973 resolved that imperialism not only hampers the economic and social progress of developing countries, but also adopts an aggressive attitude towards those who oppose its plans. It further imposes on them political, social and economic structures which encourage alien domination, dependence and neo-colonialism (FCHSGNCs; 1973).

Self-Assessment Exercises 3

Attempt these exercises to measure what you have learnt so far. This should not take you more than 5 minutes.

- 1. Which of the following is not a reason for imperialism?
- A. The need for cheap raw material to feed their growing industrial complexes
- B. The need for additional markets to consume their rising levels of production
- C. The need for investment outlets to absorb their rapidly accumulating capital.
- D. The need to open up backward societies to civilization
- 2. Scholars of Marxian orientation extol the import of capital in imperialism and argue that it is the cause of international ____
- A. Cooperation
- B. Conflict
- C. Success
- D. Consumption
- 3. Which of the following scholars referred to imperialism as the highest stage of capitalism?
- A. Immanuel Wallenstein
- B. John Hobson

C. V.I Lenin

D. Kwame Nkrumah



1.6 Summary

Africa's experience with European colonialism left the continent more impoverished and structurally disadvantaged vis-à-vis the functioning of world capitalism. Today, the continent is struggling to liberate itself from the shackles of alien socio-economic and political control whose seeds were sown through the process of colonialism. Even after securing political independence, the economies of former colonies are still not free. This is typified in what is called in the political economy parlance as neocolonialism. This phenomenon manifests through the activities of MNCs and International Financial Institutions (IFIs) such as the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD)/World Bank. The activities of these agencies have continued to affect development in Africa. Besides, various interpretations associated with the concept. It observed that while the scholars of Marxian tradition often applied the economic interpretation of the concept, liberal scholars associated imperialism with the quest for power and prestige by nations in the international arena.



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1.8 Possible Answers to Self – Assessment (SAEs)

Answer to SAE 1

- 1. A
- 2. D
- 3. C

Answer to SAE 2

1. C

2. A

Answer to SAE 3

1. D

2. 3. В

D

UNIT 2: GLOBALISATION, AND MULTINATIONAL CORPORATIONS

Unit Structure

- 2.1 Introduction
- 2.2 Learning Outcomes
- 2.3 Globalisation
 - 2.4 Multinational Corporations
- 2.5 Summary
- 2.6 References/Further Readings/Web Sources
- 2.7 Possible Answers to Self-Assessment Exercises



2.1 Introduction

There is no doubt the assertion that the world has become a global village. What is happening in one end of the world naturally affects other parts of the world directly or indirectly. There is virtually the globalization of everything in the world. This is not unconnected with technological innovations in the information super highways and continued dismantling of trade barriers between nations. Massive movement of goods and capital characterizes globalisation as the phenomenon is described across national borders. This phenomenon has attracted and is still attracting increasing, albeit competing interpretation. Besides, one of the media through which neo-colonialism functions in contemporary society is through the activities of multinational corporations (MNCs). These MNCs exist across national borders and conduct a variety of transnational businesses in both their parent and host countries. This unit therefore examines the concept of globalisation and its implications, and the nature and activities of multinational corporations in Africa.



2.2 Learning Outcomes

By the end of this unit, you will be able to:

- Know the meaning of globalisation.
- Understand the features of globalisation
- Understand the meaning and nature of multinational corporations
- Know how Multinational Corporations operate in Africa as agents of imperialism.



Globalisation

2.3.1. Meaning of Globalisation

Writing on globalisation, Mussa (2000: 1) conceives it as a process of vertical and horizontal integration involving increasing volume of and variety of transnational transactions, in goods and services, in international capital flows; in human migration and through a rapid and widespread diffusion of technology. The primary mechanism of globalisation are said to include internationalisation of knowledge; open policies with respect to international trade; removal of obstacles to international capital flow and the integration of global market place. Kwanashie (1998: 34) shares this view and asserts specifically that globalisation is a process of creating global market place in which all nations are increasingly forced to participate. The key elements of this process include the interconnection of sovereign nations through trade and capital flows; harmonisation of the economic rules that govern relationship between the sovereign nations, and the creation of structures to support and facilitate dependence as well as the creation of a global marketplace. The process is accelerated by such openings, which the advancements in information technology have provided.

Contemporary globalisation is highly information based. It combines progress in electronics, computing and telecommunication to come up with a highly dynamic process of storing, processing, transmitting and presentation of information. It gained momentum with the innovations and improvement in modern information super highways has subsequently been viewed as emphasizing on the openness of trade, factor flows, ideas and information.

It should be noted that the globalisation of capital dates back to the medieval era. In this regard, Kolodko (2004: 11) conceives globalisation as the historical process of liberalisation and integration of goods, capital and labour markets which had hitherto functioned to certain extent in separation, into a single world market place. He notes that the scope of market integration has been changing across the historical phases of the globalisation process and consequently categorized the globalisation process into three significant epochs:

- i. Globalisation of the Age of Exploration between the sixteenth and mid-seventeenth centuries;
- ii. Globalisation of the industrial revolution between the mid eighteen century and nineteenth centuries; and

iii. Globalisation in the Age of computers and internet especially from the last quarter of the twentieth century and beginning of the twenty first century.

Kolodko further identified six distinct phenomena, which he described as the fundamental features of modern globalization. Some of them are; the increase in the volume of world trade to nearly twice as the volume of output, the obvious increase in the capital flows. For instance, capital transfer from rich to poor countries stood at less than \$28 billion about three decades ago but by 1997, it was eleven times reaching \$306 billion (Kolodko, 2004: 4). The third reason is that globalisation is also associated migrations. Having observed the far reaching cultural change and the post socialist systemic transformation, Kolodko argues that globalisation is an irreversible process especially from the point of view of incredibly accelerated information flow and decreased communication and transformation cost.

Nemedia (1998: 405-414) adds that globalisation has not only transformed the structure of the financial industry but also the whole financial market as evidenced by the lowering or blurring of the traditional barriers between commercial banking, investment banking, insurance and asset management. Consequently, commercial banks have expanded their operation into the field of investment banking by engaging in the operation of other financial securities. This is as a result of the boom in the equity and bond market.

The above views of globalisation is consistent with the classical liberal view which for Shahid (2001: 6-23), will promote economic growth for all countries. Conceived in this way, globalisation is assumed to encourage positive competition and free trade since the abolition of trade restrictions is believed to expand the market for domestic products by boosting export earnings and in turn generate foreign exchange earnings that will lead to the expansion of economic activities in the country. This will also boost productivity and employment, further facilitate migrations and the diffusion of technical skills, and experience at a global level. In effect, what Shahid (2001) is saying is that globalisation will make it possible for developing countries to tap into the technologies of the developed nations to boost their agriculture and consequently become better positioned to appropriate from the dividends of a rapidly globalizing world to enhance the state of human security in their countries.

There however exists divergent view on globalisation emerging mostly from the third world. Asobie (2001) harnessed these divergent view and notes that the introduction of market forces, including the price mechanism, into a society tends to dissolve traditional social relations and

institutions, subject the economy to cyclical crisis, and, through the stimulation of narrow specialisation, results in external dependencies, which increase national vulnerabilities.

Asobie (2001) notes that although every nation can take advantage of the global market opportunities to accelerate the rate of its growth, in practice, the spread of economic activities and therefore, the rate of growth in a market system, tend to be uneven due to varying resource endowment of nations. This, to him is the real reason for state intervention into the economy. He therefore identifies the contradictions facing the bulk of the third world economies in the globalisation process as the realisation that the same process, which holds the prospects for economic growth and development, also inflicts some undesirable consequences that can perpetuate under development.

Globalisation implies the growth of a world system characterised by global accumulation, global dependency and the universalisation of market economy and relations. Here, there exist across national flows of investment, capital, goods and resources on the wider scale with little or no constraints. This process is immensely facilitated through the activities of the Multi-National Corporations (MNCs) and the Bretton Woods institutions such as International Monetary Fund (IMF) and International Bank for Reconstruction and Development (IBRD).

Globalisation has also been conceived as an extension of imperialism. Ghosh (2001: 156; Petras, 1999:8) are of the view that in the seventeenth century, one third of British capital formation was derived from the international slave trade. Here, mercantilist globalisation manifested through the exploitation and accumulation of resources through trades and commerce. This was extended into the nineteenth century through the accumulation of capital and resources from the colonies. Contemporary globalisation differs from the mercantilist globalism in that the former is highly planned, systematic and subtle, in contradistinction to the crude, erratic and unidirectional flow of resources associated with the globalisation of the mercantilist era. Ghosh (2001) notes that whereas capitalist imperialism attempted to spread globalism from the sphere of production, modern globalisation transcends this and seeks to extend globalisation to other areas such as distribution. It further seeks to integrate the Less Developed Countries (LDCs) into the framework of world capitalism to make them more dependent in the global economy characterised by asymmetrical competitions. This renders the LDCs more vulnerable to exploitation and the extraction of surplus.

1.3.1. Features of Globalisation

The following features have been identified as peculiar to modern globalisation:

- i. It is a process binding all individuals, institutions and nations into a common set of market relations.
- ii. It is a calculated economic strategy of the capitalist economies and institutions to reinforce capitalist process of growth on every country.
- iii. It is a means to extract surplus through the exploitation of cheap labour.

The principal channels through which globalisation operate include the various nation states, which continuously advocate for globalisation; the Bretton woods institutions which have consistently encouraged structural adjustments and reform policies that encourage globalisation. Such policies encourages trade and financial liberalisation, privatisation, deregulation and other market policies; There also exists the class of the comprador, some of which received western education and holding important channels for the spread of the idea of globalisation.

Self-Assessment Exercises 1

Attempt these exercises to measure what you have learnt so far. This should not take you more than 5 minutes.

- 1. Which of the following is not a primary mechanism used by globalization? A. Internationalization of knowledge
- B. Open policies with respect to international trade
- C. Removal of obstacles to international capital flow
- D. Elimination of capitalism and its tendencies.
- **2.** Which of the following is the principal channel through which globalisation operate?
- A. The Bretton woods institutions
- B. Academic Staff Union of Universities
- C. International Labour Organisation
- D. International Court of Justice
- 3. ___ has been described as another phase of imperialism.

1.4. Multinational Corporations

Multinational corporations refer to business conglomerates that have their operations across national boundaries. They are sometimes called Transnational Corporations (TNCs). Their activities usually transcend the frontiers of different countries by establishing branches in other countries. In the views of Kegley and Wittkopf, they are business enterprises

organised in one society with activities abroad growing out of direct investment (as opposed to portfolio investment through shareholding). MNCs are usually hierarchically organised and centrally directed. Quite often, they have a broader than national perspective with respect to the pursuit of highly specialised objectives through a central optimising strategy across national boundaries. (Huntington; 1973).

They usually engage in Foreign Direct Investments (FDIs). Prior to the World War II, most MNCs established foreign operations to secure sources of raw materials especially in the colonised parts of Africa, Asia and Latin America. However, since the end of the World War II, these corporations have dramatically grown in size and influence in the expanding world economy. For instance, some MNCs based in the USA, Europe and Japan began to invest in the manufacturing and services sector. Their activities usually include banking, manufacturing, transportation, mining and communication. Consequently, MNCs have significantly become an object of considerable discussion in policy and academic cycles.

Barnet and Muller (1974) refers to the global reach of the multinational corporations George W. Ball (1971) coined the term *cosmocorp*to suggest their increasing role in the international arena. On the other hand, scholars like Blake and Walters (1987) often pose the question on whether the MNCs are source of growth or under-development for the host countries. Still, Aampson (1975) focused on the oligopolistic aspirations of the major oil companies known as *Seven Sisters*. It has also been argued that since some MNCs sometimes operate in seeming autonomy and with resources that sometimes exceed the Gross National Products of it host country and since they not only focus on strategic industries like oil but also participate in the international cartel designed to control the international price and production, the MNCs are both source of capital investment and threats to the nation-state (Kegley and Wittkopf; 1989:159).

It is noteworthy to state that the activities of MNCs have stimulated intense controversies between the scholars from modernisation and dependency orientation. These controversies arise from the facts of their growing numbers and intimidating economic clout. For instance whereas western scholars insist that MNCs are agent of development as they initiate and sustain investment especially in developing countries with their FDIs. Their position is that MNCs through their investments create jobs and attract capital and technology to the areas where they operate in the Third World. There however, exist radical scholars who posit that the MNCs have contributed immensely to the impoverishment of the bulk of the Third World. Their argument is that the MNCs have contributed to unemployment in developing countries where they operate since they

often hire expatriate worker for their oversea offices. Specifically, Onimode (1988) insists that it is important to analyze MNCs in the context of world imperialism in order to gain a correct appreciation of their role in the continued underdevelopment of the bulk of the Third World.

It has been estimated that between 1960 and 1980, the revenue of the top 200 multinational companies escalated as their combined share of the world's gross domestic product increased from 18% to 29 percent (Kegley and Wittkopf; 1989). Similarly, in the early 1980s, about 18,000 MNCs worldwide controlled assets in two or more countries and these corporations were responsible for marketing roughly four-fifth of world trade excluding that of the centrally planned economies of Eastern Europe (Kegley and Wittkopf; 1989). One central thing about MNCs is that they are usually from developed countries of Europe, United States, Canada and Britain where they have their headquarters. In recent times, some MNCs now originate from newly industrialised countries of Hong Kong, Korea and Singapore. In today's world, it is no overstatement to assert that the MNCs have become so powerful with far reaching tentacles that curiosities are rising on whether they undermine the abilities of supposed sovereign states to control their economies and the foundations upon which the present international system was built.

Apter and Goodman (1976) maintain that MNCs hold a unique position among growth-inducing institutions able to affect the direction of development. They may induce or impede development. As such, Third World countries often view the MNCs with considerable suspicion. It has also been established that the movement of capital from the First World to the Third World has produced net gains for the developing and underdeveloped countries.

It is assumed that the MNCs are mere continuation of organised capital, representing the capitalist mode of production, penetration and expansion at the present stage of imperialism. They are vital vehicles for the exportation of capital to overseas territories and they facilitate the unequal terms of trade or exchange relations between developed and developing countries. Below is a checklist of the advantages and disadvantages of MNCs.

Positive

- MNCs increase the volume of world trade.
- Assist the aggregation of investment capital that can fund development.
- Finance loans and service international debt.

• Lobby for free trade and the removal of barriers to trade, such as tariffs.

- Underwrite research and development that allows technological innovation.
- Introduce and dispense advanced technology to less-developed countries.
- Reduce the costs of goods by encouraging their production according to the principle of comparative advantage.
- Generate employment.
- Encourage training of workers.
- Produce new goods and expand opportunities for their purchase through the internationalisation of production.
- Disseminate marketing expertise and mass-advertising methods worldwide.
- Promote national revenue and economic growth; facilitate modernisation of the less-developed countries.
- Generate income and wealth.
- Advocate peaceful relations between and among states in order to preserve an orderly environment conducive to trade and profits.
- Breakdown national barriers and accelerate the globalisation of the international economy and culture and rules that govern international commerce (Kegley and Wittkopf, 1989; Oatley, 2019).

Negative

- MNCs give rise to oligopolistic conglomerations that reduce competition and free enterprise.
- Raise capital in host countries (thereby depriving local industries of investment capital) but export profits to home countries.
- Breed debtors and make the poor dependent on those providing loans.
- Limit the availability of commodities by monopolising their production and controlling their distribution in the world market place.
- Export technologies that are ill-suited for underdeveloped and developing economies.
- Inhibit the growth of infant industries and local technological expertise in less-developed countries while making Third World countries dependent on First World technology.
- Collude to create cartels that contribute to inflation.
- Curtail employment by driving labour competition from the market.
- Limit wages offered to workers.

- Limit the supply of raw materials available on international markets.
- Erode international cultures and national differences, leaving in their place a homogenised world culture dominated by consumeroriented values.
- Widen the gap between the rich and poor nations.
- Increase the wealth of local elites at the expense of the poor.
- Support and rationalise repressive regimes in the name of stability and order.
- Challenge national sovereignty and jeopardize the autonomy of the nation-state (Kegley and Wittkopf, 1989; Oatley, 2019).

The powers of MNCs are often alleged to be exercised at great cost to their home countries. They are also charged with shifting productive facilities abroad to avoid demands by powerful labour unions for higher wages. It is therefore argued that the practice of shifting production from industrially advanced countries to industrially backward countries, where labour is cheap and trade unions weak or non-existent result in structural unemployment in advanced economies. The ease to shift production is facilitated by the fact that the mobility of capital is much easier than labour

The *modus operandi* include:

- Use of MNCs as vehicle of export of capital to the developing countries.
- Use of MNCs as vehicle for unequal terms of trade.
- Use of MNCs for access to the markets of the developed countries.
- Aids and Technology.

Multinational corporations have played, and continue to play a critical role in the generation and intensification of the contradictions of underdevelopment in Africa and throughout the third World. As opposed to the misleading conception of MNCs as partners in the development of African economies, empirical realities suggest that MNCs in Africa are agents for the pillage of natural resources, super exploitation of labour, net transfer of capital from poor countries, technological retardation, structural distortions, political instabilities, cultural degradation and other abuses on Third World countries. (Ake *cited in* Ihonvbere, 1991)

The expansion of multilateral imperialism as evident in the activities of Multinational corporations is one of the fundamental adjustments to the structural crises of capitalist expansion associated with the weakening of European imperialist power as a result of World War II. It is important to note that the emergence of USA as the strongest capitalist country in the post- war era and her urge for vast trade and investment outlet propelled

the launching of the Marshal Plan and transition to multilateral imperialism. For the war fatigued European powers, they needed to retain their interests and to contain the anti-imperialist nationalism in their colonies. This in effect, required the unity of all imperialist powers under US domination and a change in the strategy of colonial exploitation.(ibid) The inevitable consequence therefore became neo-colonialism through the MNCs and the Bretton Woods system which together with its component institutions, the International Bank for Reconstruction and Development (IBRD) or World Bank, the International Finance Corporation (IFC), the International Monetary Fund (IMF), and the General Agreement on Trade and Tariff (GATT) were launched in 1944 (Ihonvbere, 1991).

The MNCs on their part reflected the ascendancy of a new international division of labour centred on their new corporate structures, global spread, diverse activities, enormous resources and rapid growth. The motive of the MNCs regardless of their nationality remained the exploitation of all existing inequalities including human ones, purely and simply for their own gain. Consequently, the more there exists liberalisation, the more the growth and expansion of these companies. To this effect, the MNCs usually demand the abolition of customs barriers (through GATT and lately WTO) and the elimination of restrictions on foreign investment (through the **IMF** and IBRD) for the internationalisation of accumulation. In line with this, MNCs develop highly centralized organisations; monopolistic competitions; the insertion of representatives in the "host" state; investments at a loss for protecting markets and sources of raw materials; and joint ventures. The joint ventures in particular offer the MNCs several advantages, such as insurance against nationalisation, easy profit repatriation; a docile labour force; such incentives as local loans; and importation of raw material and spare parts, as well as first claim to local raw material, market, management, skilled labour and distributive outlet, including state networks (Ihonvbere, 1991).

Multinational corporations further blur the visibility of the imperialist strategy of domination by shifting it to objective economic plane thereby facilitating the quiet penetration of their host state by the corporations as well as the advancement of the foreign policy objectives of their home countries. They play critical roles in the development of international division of labour through the internationalisation of capital and production. MNCs serve to offset the tendency to falling rate of profit and advance the global accumulation of capital. This, in effect accentuates the centre-periphery dichotomy and Africa's dependence on the industrialised metropolis. This strategy further ensures that the MNCs are not only the dominant purveyors of monopoly capital and technology, but also the critical actors in the dialectics of development in the centre (the

imperialist countries) and underdevelopment in the periphery. This ensures the survival of imperialism by guaranteeing it a region of the world that will remain as the extensive margin of neocolonial exploitation for resolving its basic contradictions in the advanced countries.

The scope of the activities of MNCs in Africa can be traced to the activities of old colonial mercantile house, such as the Royal Niger Company, United African Company (UAC), Chandria in Kenya, Lever Brothers etc. The growth of monopoly capital from the 1880s and the emergence of multilateral imperialism after 1945 compelled these mercantile houses to divert their investment portfolios into agriculture, mining and manufacturing. The stiff tariff protection of early postcolonial nationalism encouraged the establishment of multinational affiliates as "tariff factories" in Third World countries. The motive of these MNCs have historically been analysed by Lenin, Hobson and others as the falling rate of profit from shrinking home markets. (Lenin 1939; 89) Apart from the search for profitable investment outlets for surplus capital and for protected markets, control over sources of such raw materials as oil, copper, rubber etc. has remained a major motive of multinational activity. The exploitation of cheap labour in low wage countries is also an important source of the super-profits of the MNCs. Other advantages sought by the MNCs include risk minimisation through geographical spread, checking competitors globally or at home, exploitation of the monopoly advantages of a new product and reaping economies of scale. In Nigeria, the role of oil multinationals in shaping the nation's development cannot be over-emphasised. These companies apart from influencing political power groups, and decision centres, at times dominate the national economic policies and political direction the country should take. The major oil companies operating in Nigeria include the followings: Shell, Exxon-Mobil, Chevron, Agip, Elf, Statoil/BP and TEXACO. Mobil Oso condensate plant was constructed with an estimated USD1 billion. Shell increased its annual investments in the oil sector from USD700 million in 1989 to USD1.2 billion by 1992 as part of a USD5.6 billion five-year programme (Obi; 1993). This development, coupled with the signing of production agreement between the Nigerian government represented by the Nigeria National Petroleum Company (NNPC) with Shell, Chevron, Elf and Mobil in 1993 have resulted in the frustration of the growth of indigenous petroleum entrepreneurship in Nigeria. Agbu (2000: 112) conceives this as the unchallenged hegemony of foreign oil companies in Nigeria's most strategic economic sector- the oil sector.

In Nigeria, oil companies have been accused of corrupting and influencing public officials. For instance, in certain cases, officials may be bribed to produce false statistics on oil data or to keep false accounts of the sale of oil. Agbu observed that sometimes the unsavoury activities

of some of the oil companies is as a result of the ignorance of Nigerian officials. A good example occurred when it was realised that the expensive oil refinery built in Kaduna at the cost of about N5, 000 million (Naira) could only refine imported heavy crude, and that it was not suited for the refining of Nigeria's low sulphur crude (*ibid*).

Furthermore, it was also realised that at the wake of the Ogoni crisis, Shell was accused of bribing security officials to terrorise environmental and human rights activists in the oil producing communities through punitive operations. Shell also buys substantial amount of firearms through open tender for its own use and the arming of its security personnel. Ake (1996) referred to this as the privatisation of state security. So far the inhabitants of the oil producing communities in Nigeria have continued to protest their disadvantaged position, especially as it concerns the regime of marginalisation, economic exploitation and degradation in the Niger Delta. This is exemplified in the clashes between state security forces and the people of Ogoni, Odi and Choba in Rivers and Bayelsa states and most recently, the incidences of hostage taking of expatriate oil workers in Delta and Bayelsa states. It is therefore not an overstatement to assert that the control of oil by hegemonic and extractive external multinationals operating in Nigeria will continue to subvert and constrain the country's ability to national development and peaceful coexistence of the various ethnic nationalities that make up the body polity.

Self-Assessment Exercises 2

Attempt these exercises to measure what you have learnt so far. This should not take you more than 5 minutes.

- 1. What is a business conglomerates that have their operations across national boundaries called?
- A. International trade
- B. Multinational corporations
- C. International migration
- D. International Bank for Reconstruction and Development
- 2. Which of the following is not a positive effect of multinational corporations?
- A. They increase the volume of world trade
- B. They assist the aggregation of investment capital that can fund development
- C. They lobby for free trade and the removal of barriers to trade, such as tariffs.
- D. They contribute to change of government that fails to advance their interest.
- 3. Which of the following is not a modus operandi of multinational corporations?

- A. Use of MNCs as vehicle of export of capital to the developing countries.
- B. Use of MNCs as vehicle for unequal terms of trade.
- C. Use of MNCs for access to the markets of the developed countries.
- D. Use of MNCs to transfer profit from advanced capitalist countries to the less developed countries.



2.5 Summary

The meaning and the features of globalisation were explicitly discussed in this unit. Globalisation I manifested in the internationalization of the world system facilitated by widespread improvement in information and communication technology. It is manifested in the volume of trade, migration, international mobility of goods and services, and worldwide interdependency. It highlighted various notions of the process and concluded that the phenomenon has both positive and negative implication for the economies of developing countries. This is occasioned by the assertion, especially as enunciated by the advocate of underdevelopment and dependency theorists that developing economies were drafted into international capitalism unprepared. The unit also interrogated the nature, activities, and implications of MNCs in their host countries. It observed that despite the fact that these corporations contribute to national economic life of their host countries, the impact of the exploitation are far reaching in those countries. As such, they constitute a vehicle for neo-colonial exploitation of the host countries.



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Possible Answers to Self – Assessment Exercises (SAEs)

Answer to SAEs 1

- 1. D
- A
- 2. 3. Globalization

Answer to SAEs 2

- 1. \boldsymbol{B}
 - D
- 2.3. D

UNIT 3: THE BRETTON WOODS SYSTEM

Unit Structure

- 1.1. Introduction
- 1.2. Learning Outcomes
- 1.3. The Bretton Woods System
 - 1.3.1. History of the Bretton Woods System
 - 1.3.2. Description of the Bretton Woods Institutions
- 1.4. Summary
- 1.5. References/Further Reading



3.1 Introduction

Since the end of the World War II, several pro-capitalist institutions emerged to regulate the post war international economic relations. Prominent among them is the Bretton Woods institutions such as the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (IBRD), and the General Agreement on Tariffs and Trade (GATT), which later became the World Trade Organization (WTO). This unit examines the nature and relevance of the Bretton Woods institutions to post World War II economic challenges of western nations of Europe and America as well as the developing countries of post-colonial Africa.



2.2 Learning Outcomes

At the end of this unit, you should be able to:

- Explain the meaning of the Bretton Woods System
- Discuss the activities of the various Bretton Woods Institutions
- Apply the activities of these institutions to contemporary global economic reality and international economic relations.



3.3 The Bretton Woods System

3.3.1. History of the Bretton Woods System

A new international monetary system was forged by delegates from fortyfour nations in Bretton Woods, New Hampshire, in July 1944. Delegates to the conference agreed to establish the International Monetary Fund and what became the World Bank Group. The system of currency convertibility that emerged from Bretton Woods lasted until 1971 (Bernstein, 1984).

The United Nations Monetary and Financial Conference was held in July 1944 at the Mount Washington Hotel in Bretton Woods, New Hampshire, where delegates from forty-four nations created a new international monetary system known as the Bretton Woods system. These countries saw the opportunity for a new international system after World War II that would draw on the lessons of the previous gold standards and the experience of the Great Depression and provide for post-war reconstruction. It was an unprecedented cooperative effort for nations that had been setting up barriers between their economies for more than a decade.

They sought to create a system that would not only avoid the rigidity of previous international monetary systems, but would also address the lack of cooperation among the countries on those systems. The classic gold standard had been abandoned after World War I. In the interwar period, governments not only undertook competitive devaluations but also set up restrictive trade policies that worsened the Great Depression.

Those at Bretton Woods envisioned an international monetary system that would ensure exchange rate stability, prevent competitive devaluations, and promote economic growth. Although all participants agreed on the goals of the new system, plans to implement them differed. To reach a collective agreement was an enormous international undertaking. Preparation began more than two years before the conference, and financial experts held countless bilateral and multilateral meetings to arrive at a common approach. While the principal responsibility for international economic policy lies with the Treasury Department in the United States, the Federal Reserve participated by offering advice and counsel on the new (https://www.federalreservehistory.org/essays/bretton-woods-created). The primary designers of the new system were John Maynard Keynes, adviser to the British Treasury, and Harry Dexter White, the chief international economist at the Treasury Department (Patinkin, 2008).

Keynes, one of the most influential economists of the time (and arguably still today), called for the creation of a large institution with the resources and authority to step in when imbalances occur. This approach was consistent with his belief that public institutions should be able to intervene in times of crises. The Keynes plan envisioned a global central bank called the Clearing Union. This bank would issue a new international currency, the "bancor," which would be used to settle

international imbalances. Keynes proposed raising funds of \$26 million for the Clearing Union. Each country would receive a limited line of credit that would prevent it from running a balance of payments deficit, but each country would also be discouraged from running surpluses by having to remit excess bancor to the Clearing Union. The plan reflected Keynes's concerns about the global postwar economy. He assumed the United States would experience another depression, causing other countries to run a balance-of-payments deficit and forcing them to choose between domestic stability and exchange rate stability (Patinkin, 2008).

White's plan for a new institution was one of more limited powers and resources. It reflected the concerns that much of the financial resources of the Clearing Union envisioned by Keynes would be used to buy American goods, resulting in the United States holding the majority of bancor. White proposed a new monetary institution called the Stabilization Fund. Rather than issue a new currency, it would be funded with a finite pool of national currencies and gold of \$5 million that would effectively limit the supply of reserve credit (Patinkin, 2008).

The plan adopted at Bretton Woods resembled the White plan with some concessions in response to Keynes's concerns. A clause was added in case a country ran a balance of payments surplus and its currency became scarce in world trade. The fund could ration that currency and authorize limited imports from the surplus country. In addition, the total resources for the fund were raised from \$5 million to \$8.5 million (Patinkin, 2008).

The 730 delegates at Bretton Woods agreed to establish two new institutions. The International Monetary Fund (IMF) would monitor exchange rates and lend reserve currencies to nations with balance-of-payments deficits. The International Bank for Reconstruction and Development, now known as the World Bank Group, was responsible for providing financial assistance for the reconstruction after World War II and the economic development of less developed countries.

The IMF came into formal existence in December 1945, when its first twenty-nine member countries signed its Articles of Agreement. The countries agreed to keep their currencies fixed but adjustable (within a 1 percent band) to the dollar, and the dollar was fixed to gold at \$35 an ounce. To this day, when a country joins the IMF, it receives a quota based on its relative position in the world economy, which determines how much it contributes to the fund.

In 1958, the Bretton Woods system became fully functional as currencies became convertible. Countries settled international balances in dollars, and US dollars were convertible to gold at a fixed exchange rate of \$35 an ounce. The United States had the responsibility of keeping the price of

gold fixed and had to adjust the supply of dollars to maintain confidence in future gold convertibility. The Bretton Woods system was in place until persistent US balance-of-payments deficits led to foreign-held dollars exceeding the US gold stock, implying that the United States could not fulfill its obligation to redeem dollars for gold at the official price. In 1971, President Richard Nixon ended the dollar's convertibility to gold (Eichengreen, 2011).

Onimode (1988) described the Bretton Woods system as a by-product of development of the capitalist international division of labour, which imposed primary production on the dominated Third World countries (TWCs) while the Industrialised Capitalist Countries (ICCs) monopolised manufacturing, technology and finance capital. The development of capitalist international division of labour is synonymous with the expansion of the capitalist world market or trade, capital and labour force. As such, it relies on exchange, which requires currency as a numerator or measure of value, as a means of payment for reckoning credit and debits and as an instrument of foreign reserves. It is his view that these international functions of currency require an international institution such as the IMF to create, manage and distribute it.

Based on this, he maintained that the emergent international monetary system exist to respond to the needs and policies of world capitalism. Consequently, he argued that just as a national economy requires a central bank, so also does world capitalism organised under the hegemony of its most powerful economy whose currency emerged as the dominant reserve currency of imperialism. US control of about 59% of global gold reserve in 1945 and 72% in 1948 gave her financial hegemony, which lasted from 1944 to 1960, and the dollar was graded as gold for reserve currency. This convertibility made it easy for foreigners to convert the dollar to gold (Onimode; 1988).

However, the rebuilding and recovery of Japan and several European economies in the 1960s posed a challenge to the continued dominance of the US. Consequently, America gradually piled up increasing balance of payment deficit and subsequently lured Europe into the Gold Pool of 1961-68 from which France pulled out in 1967.

3.3.2. Description of the Bretton Woods Institutions

It is necessary at this point to give brief description of the International Monetary Fund (IMF) and the International Bank for reconstruction and Development (IBRD) or World Bank. The IMF is an integral part of the Bretton Woods system. It administers the International Monetary system and operates as a central bank for various national central banks. Its mode of operation requires member nations to subscribe by lending their

currencies to the IMF; the IMF then relends these funds to assist countries in balance of payment deficits. Its main function is to make temporary loans to countries which have balance of payment problems or are under speculative attack in financial markets. The IMF main official goal as contained in Article VIII of its Article of Agreement (2020:23) stipulates that:

No member may, without the approval of the Fund, impose restrictions on the making of payments, transfer for current international transactions, or engage in discriminatory currency arrangements or multiple currency practices.

In line with this, the IMF fosters the maintenance of balance of payment equilibrium and the promotion of economic growth in individual member countries. This is another international financial institution established after the Second World War. The bank is 157riticized157 by high-income nations that subscribe in proportion to their economic importance in terms of Gross Domestic Products (GDP) and other factors. The bank makes long-term low interest loans to countries for projects which are economically sound but which cannot get private sector financing. The long-term loans ensure that good and services flow from advanced nations to developing countries. In 1999, the World Bank Group had outstanding loans in developing countries of \$119 billion and made new loan commitments of \$22 billion. The specific official objective of the IBRD include the promotion of economic reconstruction of Western Europe and Japan in post-World War II era and the general economic development of these post war nations (Onimode; 1988).

There has however emerged contention that the common fundamental objectives of both the IMF and the IBRD is to aid the construction and consolidation of the international capitalist system based on capitalist production and exchange under multilateral market forces for the accumulation of economic surplus by private capital without state restrictions. Articles 1 of the Fund's Article of Association give it a major role in the establishment of a multilateral system of payment with the elimination of foreign exchange restrictions. As such, it has often been argued that imperialist conspiracy manifested in the operation of the Bretton Woods network.

While the World Bank looked after imperialist investments, the GATT treaties policed free trade and the IMF imposed currency convertibility. Generally, the IMF and IBRD has since the 1970s and 80s provided loans to several Third World Countries (TWCs) faced with shortages of foreign exchange. For instance, between 1973 and 1979, the IMF provided several countries in sub-Saharan Africa with soft credits and other financial assistance from the IMF to deal with balance of payment

deficits, while the World Bank offered loans for anti-poverty projects under it rural development programme. These practices have often provided both institutions the opportunity to prescribe policies to these countries. (Onimode; 1988: 279)

Specifically, the IMF has since 1979 been offering more assistance to Africa under its Stand-by Arrangement of Extended Fund Facility with tough preconditions. Similarly, the IBRD has since the 1980s been shifting from its project tied loans for poverty programmes to the provision of structural adjustment loans. As such, both institutions have been coordinating their lending policies towards the developing countries under increasingly similar stabilization programmes with the imposition of pernicious preconditions on the national policies of these poor countries (Onimode 1988). The preconditions which are usually associated with the IMF conditionalities include:

- Trade Liberalisation which is the abolition of foreign exchange controls and import restrictions;
- Devaluations of the exchange rates of national currency which raises the price of import in domestic currency and lowers the price of exports in terms of foreign currency;
- Monetary anti-inflationary measures such as the control of bank lending (credit), higher interest rates and possibly higher reserve requirements for commercial banks;
- Fiscal anti-inflationary programmes such as control or elimination of government's budget deficit, reduced spending, increases in taxes, higher prices to be charged by public enterprises, and withdrawal of subsidy (for example, on education, health, petrol, agriculture and so on);
- Anti-inflationary control of wage increase;
- Anti-inflationary dismantling of price controls and minimum wages;
- Open door policy on foreign investment and multinational corporations; including free repatriation of profits;
- Reduction of spending on social services such as education, health, housing and so on; and
- Privatisation or sale of public enterprises (parastatals) to local and foreign capitalists. These preconditions are usually imposed in the *Letter of Intent* to lend by both the IMF and IBRD.
- (Onimode; 1988: 285)

Onimode (1988) contends that these conditions are discriminatory in character, uniform in their imposition on poor borrower countries and inconsistent with the prescriptions of economic theory. In his views, these conditions were nonexistent between 1947 and 1977 and during the chaotic monetary disorders of the 1970s when the countries of Western

Europe were borrowers. Similarly, he argued that the IMF imposed no discipline on them but that the crises of the Third World countries attracted maximum sanctions despite the fact that the root causes of these crises is the abuse of the international capitalist system. He further 159riticized these Bretton Woods institutions as bad doctors that prescribed the same treatment for all patients (countries with balance of payment deficit or external debt crises.) These alien prescriptions sometimes contradict the solutions prescribed by economic theories for dealing with balance of payment deficits, external debt problems and general economic crises.

Self-Assessment Exercises 1

Attempt these exercises to measure what you have learnt so far. This should not take you more than 5 minutes.

- 1. The Bretton Woods system came on board at the end of ____
- A. World War I
- B. World War II
- C. Cold War
- D. Civil War
- 2. Which of the following is not a Bretton Woods institution?
- A. International Bank for Reconstruction and Development
- B. International Monetary Fund
- C. International Labour Organisation
- D. General Agreements on Tariffs and Trade/ World Trade Organisation
- 3. The IMF fosters the maintenance of ____ equilibrium and the promotion of economic growth in individual member countries.
- A. Balance of payment
- B. Growth of payment
- C. Currency
- D. Trade



3.4 Summary

The above highlight indicates that the Bretton Woods institutions contribute significantly to the continued underdevelopment of states in post-colonial Africa. It does this with loans of sometimes, questionable legitimacy and stringent conditionalities. The overall implication of this is that many states in post-colonial Africa are now trapped in what has been variously referred to as *debt trap*.



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3.6 Possible Answers to Self-Assessment Exercises (SAEs)

Answer to SAEs 1

1.	В	
2.	C	
<i>3</i> .	\boldsymbol{A}	

UNIT 4: INTERNATIONAL ECONOMIC RELATIONS

Unit Structure

- 4.1 Introduction
- 4.2 Learning Outcomes
- 4.3 International Economic Relations
 - 4.3.1 International Division of Labour
 - 4.3.2 Economic Policy Choices
 - 4.3.3 International Trade
- 4.4 Summary
- 4.5 References/Further Readings



4.1 Introduction

This unit examines the introduction to economic relations among countries. It is designed overview of international economics. We will study the underlying determinants of trade in goods, services and capital among countries along with the policies that nations often use to influence such trade. Emphasizing fundamental economic concepts as well as the interplay between domestic and international politics, international economic relations not only explains how the global economy works, it also encourages students to think critically about how economic policy is made in the context of globalization. The unit provides the student with the necessary foundation in understanding the world economy as well as the major issues of our time such as free trade and international trade disputes, among others.



4.2 Learning Outcomes

At the end of this unit, you should be able to:

- Discuss the meaning of international economic relations
- Analyse the practice of division of labour in international economic relations.
- Explain the rationale for economic policy choices among states in the international system.
- Appraise the place on international trade in modern international economic system.



4.3. International Economic Relations

The world has become a global village. What happens in one end of the world directly or indirectly affects other parts of the world. For example, Oatley (2019:24) asserts that "living in a global economy also means that global economic forces play a much larger role in determining many of our career opportunities today than they did a few decades ago". Twentyfive years ago, manufacturing industries made high-paying jobs available that provided Americans a middle-class lifestyle. In many southern states, for instance, textile and apparel mills provided jobs for two if not three generations of workers. In the Great Lakes region, steel mills and the huge automobile factories built by Ford, GM, and Chrysler did the same. Today, many of these opportunities have disappeared and much of this loss has occurred as a consequence of international trade. At the same time, the opportunity to find work in a service industry and in high technology has increased dramatically. Medical care, computer design, Internet-based businesses, biotechnology, finance, and high-technology manufacturing industries all have emerged as large growing employers of the American work force since 1980. Thus, the opportunities available today are far different today than they were a quarter-century ago. The global economy has played a central role in bringing about these changes (Oatley, 2019:24-5).

International economic relations otherwise referred to as international political economy (IPE) studies how politics shape developments in the global economy and how the global economy shapes politics. It focuses most heavily on the enduring political battle between the winners and losers from global economic exchange. Although all societies benefit from participation in the global economy, these gains are not distributed evenly among individuals. Global economic exchange raises the income of some people and lowers the income of others. The distributive consequences of global economic exchange generate competition in national and international arenas. The winners seek deeper links with the global economy in order to extend and consolidate their gains, whereas the losers try to erect barriers between the global and national economies in order to minimize or even reverse their losses. IPE studies how the enduring political battle between the winners and losers from global economic exchange shapes the evolution of the global economy (Oatley, 2019).

International political economy studies problems that arise from or are affected by the interaction of international politics, international economics, and different social systems (e.g., capitalism and socialism) and societal groups (e.g., farmers at the local level, different ethnic groups in a country, immigrants in a region

such as the European Union, and the poor who exist transnationally in all countries). It explores a set of related questions ("problematique") that arise from issues such as international trade, international finance, relations between wealthier and poorer countries, the role of multinational corporations, and the problems of hegemony (the dominance, either physical or cultural, of one country over part or all of the world), along with the consequences of economic globalization (Balaam and Veseth, (2022).

Analytic approaches to international political economy tend to vary with the problem being examined. Issues can be viewed from several different theoretical perspectives, including the mercantilist, liberal, structuralist (Marxist or neo-Marxist) perspectives. Mercantilists are closely related to realists, focusing on competing interests and capabilities of nation-states in a competitive struggle to achieve power and security. Liberals are optimistic about the ability of humans and states to construct peaceful relations and world order. Economic liberals, in particular, would limit the role of the state in the economy in order to let market forces decide political and social outcomes. Structuralist ideas are rooted in Marxist analysis and focus on how the dominant economic structures of society affect (i.e., exploit) class interests and relations. Each of these perspectives is often applied to problems at several different levels of analysis that point to complex root causes of conflict traced to human nature (the individual level), national interests (the national level), and the structure of the international system (which lacks a single sovereign to prevent war). For example, analysis of U.S. policy regarding migrants from Mexico must take into consideration patterns of trade and investment between the two countries and the domestic interests on both sides of the border. Similarly, domestic and international interests are linked by trade, finance, and other factors in the case of financial crises in developing countries such as Thailand and Argentina. The distinction between foreign and domestic becomes as uncertain as the distinction between economics and politics in a world where foreign economic crises affect domestic political and economic interests through trade and financial linkages or through changes in security arrangements or migrant flows (Balaam and Veseth, (2022).

Contemporary international political economy appeared as a subfield of the study of international relations during the era of Cold War rivalry between the Soviet Union and the United States (1945–91). Analyses initially focused largely on international security but later came to include economic security and the role of market actors—including multinational corporations, international banks, cartels (e.g., OPEC), and international organizations (e.g., the IMF)—in national and international security strategies. International political economy grew in importance as a result of various dramatic international economic events, such as the collapse of

the Bretton Woods international monetary system in 1971 and the oil crisis of 1973–74 (Balaam and Veseth, (2022).

During the early period of the Cold War, political scientists emphasized the realist, or power politics, dimension of U.S.-Soviet relations, while economists tended to focus on the Bretton Woods system of the international economy—that is, the institutions and rules that beginning in 1945 governed much of the international economy. During the Vietnam War, however, a growing decrease in the value of the U.S. dollar and large deficits for the United States in its balance of trade and payments weakened the ability of the United States to conduct and pay for the war, which thereby undermined its relationship to its North Atlantic Treaty Organization allies. During the OPEC oil crisis, the realist-oriented U.S. Secretary of State Henry A. Kissinger found himself unable to understand the issues without the assistance of an economist. These events led to a search for a multidisciplinary approach or outlook that borrowed different theories, concepts, and ideas from political science and international relations—as well as from economics and sociology—to explain a variety of complicated international problems and issues. It did not so much result in the development of a new school of political economy as emphasize the continued relevance of the older, more-integrated type of analysis, which explicitly sought to trace the connections between political and economic factors (Balaam and Veseth, 2022).

Following the end of the Cold War, international political economy became focused on issues raised by economic globalization, including the viability of the state in an increasingly globalized international economy, the role of multinational corporations in generating conflict as well as growth in the "new global economy," and various problems related to equity, justice, and fairness (e.g., low wage rates in developing countries and the dependency of these countries on markets in wealthier countries). In the 1950s and '60s, American economist W.W. Rostow and other experts on Western economic development made popular the argument that after a period of tension, disorder, and even chaos within a developing country that had been exposed to the West, that country would eventually "take off," and development would occur. In the late 1960s and continuing into the 1990s, many development experts from a structuralist point of view (including many Marxists and neo-Marxists) posited a variety of explanations as to why many developing countries did not seem to develop or change much. For example, the German-born economist Andre Gunder Frank made popular the idea that, when developing countries connect to the West, they become underdeveloped. Social theorist and economist Immanuel Wallerstein, whose works have made a lasting impact on the study of the historical development of the world capitalist system, argued that development does occur but only for a small number of semiperipheral states and not for those peripheral states

that remain the providers of natural resources and raw materials to the developed industrial core states (Balaam and Veseth, 2022).

Such themes were evident in the 1990s and the early 21st century when a number of politically and economically powerful (and mostly Western) multinational corporations were accused of exploiting women and children in unsanitary and unsafe working conditions in their factories in developing countries. These cases and others like them were seen by some structuralists as evidence of a "race to the bottom" in which, in order to attract investment by international businesses, many developing countries relaxed or eliminated worker-protection laws and environmental standards (Balaam and Veseth, 2022).

4.3.1. International Division of Labour

The concept of international division of labour emanated from the description of the relationship between the advanced and highly industrialized countries of the global north and the less developed and poorly industrialized countries of the global south. They are both actors in international trade with different roles.

Generally, division of labour is an economic concept that presupposes that individual should concentrate on a particular area of operation. It is the breakdown of production process into parts with each person specializing in one part. When this happens for a long period of time, he/she can build expertise in that area and specialize in a particular area of operation.

With respect to international division of labour, the global north specializes in the conversion of raw materials to finished goods whereas the countries in the global south are specialists in the production of primary goods. This provides the avenue for unequal trade relations.

Underdevelopment and dependency theorists have argued that; this arrangement has accelerated the development of the global north whereas the countries in the global south are continually impoverished and pauperized. They argued that;

- The countries of the global south are co-opted into international capitalism unprepared.
- The countries of the global north determine the prices of both the raw materials and the finished products thereby skewing the business in their favour. The global north fixes high prices on the finished goods and low prices on the primary goods, thereby increasing the wealth of the global north at the detriment of the global south.

 This resulted in the continual exploitation of the global south which increases their misery and underdevelopment. To this end, they argued that both development and underdevelopment are two sides of the same coin. The process that led to the development of the global north equally generates underdevelopment in the global south.

• This unequal exchange and disequilibrium in international trade is unhealthy for robust international trade and cooperation.

On the other hand, the new international division of labour, the agent of exploitation is the difference between the prices of the primary goods and the finished goods. This era reflects the era of the internationalization of multinational co-operations (MNCs). These MNCs employ basically low and middle level manpower from their host countries. These labourers are exploited through what is in the Marxian parlance referred to as the surplus value. The surplus value is the difference between what a labourer is paid and what he ought to be paid. This also derives from surplus labour (the difference between the number hours a labourer worked and the number of hours he ought to work). Through this, the countries of the global north which are home countries of these MNCs continue to witness development at the expense of the countries of the global south.

4.3.2. Economic Policy Choices

Lahmann (2006:527) dared to state the distinction between economics and politics by stating that the idea behind the economics politics nexus is "on the one hand, to apply the economics paradigm to the study of political phenomena... and on the other hand, to account for political forces in models of economic phenomena". Beeson (2019:201) asserts that there "the continuing importance of power politics in shaping economic as well as strategic outcomes."

Economics is concerned with studying and influencing the economy. Politics is the theory and practice of influencing people through the exercise of power, e.g. governments, elections and political parties. In theory, economics could be non-political. An ideal economist should ignore any political bias or prejudice to give neutral, unbiased information and recommendations on how to improve the economic performance of a country. Elected politicians could then weigh up this economic information and decide. In practice there is a strong relationship between economics and politics because the performance of the economy is one of the key political battlegrounds. Many economic issues are inherently political because they lend themselves to different opinions. This occasions the serious nexus between economics and politics. https://www.economicshelp.org/blog/11298/concepts/the-relationshipbetween-economics-and-politics/.For instance, positive economic

performance or otherwise can decide the fate of an incumbent who is seeking re-election.

Many economic issues are seen through the eyes of political beliefs. For example, some people are instinctively more suspicious of government intervention. Therefore, they prefer economic policies which seek to reduce government interference in the economy. For example, supply side economics, which concentrates on deregulation, privatisation and tax cuts. On the other hand, economists may have a preference for promoting greater equality in society and be more willing to encourage government intervention to pursue that end.

Some economists may be scrupulously neutral and not have any political leanings. They may produce a paper that perhaps challenges their previous views. Despite their preferences, they may find there is no case for rail privatisation, or perhaps they find tax cuts do actually increase economic welfare.

All economists and political economists acknowledge the need for some minimal rules or institutions to govern and regulate economic activities; even the most ardent public-choice economist would agree that laws are needed to enforce contracts and protect property rights. A liberal international economy—that is, an international economy characterized (at least in ideal terms) by such factors as open markets, freedom of capital movement, and nondiscrimination—certainly needs agreed-upon rules. A liberal economy can succeed only if it provides public goods like a stable monetary system, eliminates market failures, and prevents cheating and free-riding. Although the primary purpose of rules or regimes is to resolve economic problems, many are actually enacted for political rather than for strictly economic reasons. For example, although economists may be correct that an economy benefits from opening itself to free trade whether or not other countries open their own markets to it, a liberal international economy could not politically tolerate too many free-riders who benefit from the opening of other economies but refuse to open their own markets (Gilpin, 2001:82).

This type of mixed motive game in which the players have a motive to cooperate and also a motive to defect is characteristic of almost every aspect of international politics and certainly of international economic affairs. Although the players would gain from cooperation, each might gain even more by defecting (cheating); yet both would lose if both cheat. For example, a nation might be able to increase its own relative gains in the international trading regime by exporting to other markets at the same time that it keeps its own markets closed; however, if others retaliate and close their markets, everyone would lose (Gilpin, 2001).

4.3.3. International Trade

International trade affects what we eat, what we wear, what we watch and listen to, how we move about, where we go, and how we earn a living. But how exactly is it possible for consumers in Iowa to obtain tomatoes from Belgium? How do people in Finland know that people in Des Moines wish to buy cell phones? How, in other words, does trade come about? What determines who sells what, and who buys what? And is all this trade a good idea?

Politics determines the answers to these questions to a remarkably large degree. However, the discipline of economics during the past two centuries also has developed a powerful understanding of the sources, mechanics, and effects of international trade. By understanding international trade theory, we can identify some of the most important and interesting political issues relating to the world political economy.

One of the factors that facilitated international trade is comparative advantage. It exists when a country has a margin of superiority in the production of a good or service i.e. where the opportunity cost of production is lower. The basic theory of comparative advantage was developed by David Ricardo.

Ricardo's theory of comparative advantage was further developed by Heckscher, Ohlin and Samuelson who argued that countries have different factor endowments of labour, land and capital inputs. Countries will specialise in and export those products which use intensively the factors of production which they are most endowed.

If each country specialises in those goods and services where they have an advantage, **then total output and economic welfare can be increased (under certain assumptions)**. This is true even if one nation has an absolute advantage over another country.

For a country, the following factors are important in determining the relative costs of production:

- The quantity and quality of factors of production available (e.g. the size and efficiency of the available labour force and the productivity of the existing stock of capital inputs). If an economy can improve the quality of its labour force and increase the stock of capital available it can expand the productive potential in industries in which it has an advantage.
- Investment in research & development (important in industries where patents give some firms significant market advantage).

- Movements in the exchange rate. An appreciation of the exchange rate can cause exports from a country to increase in price. This makes them less competitive in international markets.
- Long-term rates of inflation compared to other countries. For example if average inflation in Country X is 4% whilst in Country B it is 8% over a number of years, the goods and services produced by Country X will become *relatively more expensive* over time. This worsens their competitiveness and causes a switch in comparative advantage.
- Import controls such as tariffs and quotas that can be used to create an artificial comparative advantage for a country's domestic producers- although most countries agree to abide by international trade agreements.
- Non-price competitiveness of producers (e.g. product design, reliability, quality of after-sales support) (Gilpin, 2001).
- The Free Trade and Trade Protection controversy has continued to rage on. The debate shall be discussed as follows:

• The Debate over Free Trade

The liberal doctrine of free trade is based on the principles of the market system formulated by classical economists. Adam Smith and David Ricardo argued that removing the impediments to the free movement of goods would permit national specialization and facilitate optimal utilization of the world's scarce resources.

Benefits of free trade

- Trade liberalization would lead to efficient trade patterns determined by the principle of **comparative advantage**; that is, by relative factor prices (of land, capital, and labour). Adoption of the principle of comparative advantage or comparative cost would ensure that a country would achieve greater economic welfare through participation in foreign trade than through trade protection. Underlying this liberal commitment to free trade is the belief that the purpose of economic activity is to benefit the consumer and maximize global wealth.
- Free trade also maximizes consumer choice, reduces prices, and facilitates efficient use of the world's scarce resources. From this perspective, the primary purpose of exports is to pay for imports rather than to enhance the power of the state.
- Trade liberalization increases competition in domestic markets, and thereby undermines anticompetitive practices, lowers prices, increases consumer choice, and increases national efficiency.

• Free trade increases both national and global wealth by enabling countries to specialize and to export those goods and services in which they have a comparative advantage while importing those goods and services in which they lack comparative advantage.

- Free trade also encourages the international spread of technology and know-how around the globe and thus provides developing economies with the opportunity to catch up in income and productivity with more advanced economies.
- Free trade and the international cooperation that it entails increase the prospects of world peace.
- If universal free trade were to exist, all countries would enjoy the highest level of utility and there would be no economic basis for international conflict or war.

Be that as it may, unhindered free trade can:

- Make an economy a dumping ground for foreign goods
- Heighten the dependence of less developed societies on the more advanced ones
- Expose infant industries to undue pressure

i. Trade Protection

Trade protection refers to a deliberate restrictive state policy on the importation of certain goods.

Advocates of trade protection have desired to achieve certain political, economic, and other objectives more than the economic benefits for the entire society of free trade. However, the specific objectives sought by protectionists have varied over time and space.

Rationale for trade protection

- Economic nationalists regard trade protection as a tool of state creation and statecraft; for example, a trade surplus is considered beneficial for national security.
- Many representatives of less developed countries believe that trade with industrialized countries is a form of imperialism; they fear that free trade benefits only the developed economy and leads to dependence of the less developed countries on the developed ones.
- Infant industries protection. "An infant industry is one that, if protected from international competition, will become sufficiently strong and competitive to enable it to survive when protection is eventually removed" (Gilpin, 2001: 200).

• In developed societies, proponents of trade protection reject free trade and other forms of globalization as threats to jobs, wages, and domestic social welfare; organized labour in industrialized countries increasingly advocates protection against imports from low-wage economies with inadequate labour standards.

Consequences of trade protection

- Trade protection reduces both national and international economic efficiency by preventing countries from exporting those goods and services in which they have a comparative advantage and from importing those goods and services in which they lack comparative advantage.
- Protection also decreases the incentive of firms to innovate and thus climb the technological ladder
- It discourages shifting of national resources to their most profitable use.
- Trade protection constitutes a heavy burden on an economy
- Trade protection also has a negative impact on income distribution. A tariff or other restrictive measure creates economic or monopoly rents and shifts income from consumers and non-protected sectors to the protected sectors of the economy.
- Trade protection tends to protect declining non-competitive industries.
- Trade protection leads to the redistribution of national income from consumers to protected producer interests.
- It invites retaliation from other countries, and this means that everyone will lose

Self-Assessment Exercises 1

Attempt these exercises to measure what you have learnt so far. This should not take you more than 5 minutes.

- 1. Which of the following affects what we eat, what we wear, what we watch and listen to, how we move about, where we go, and how we earn a living?
- A. Multinational Corporations
- B. International Relations
- C. International Trade
- D. International Monetary Funds
- 2. Living in a global economy also means that global economic forces play a much larger role in determining many of our career opportunities today than they did a few decades ago. (True or False)
- 3. Trade _____ decreases the incentive of firms to innovate and thus climb the technological ladder.
- 4. Which of the following exists when a country has a margin of superiority in the production of a good or service?

- A. Division of Labour
- B. International Mobility
- C. Multinational Corporation
- D. Comparative Advantage
- 5. The breakdown of production process into parts with each person specializing in one part is called?
- A. Monetary Policy
- B. Division of Labour
- C. Production Economics
- D. International Trade



4.4 Summary

In this unit, we made an exhaustive discussion on international economic relations. The discussion on the relationship between economics and politics informed other activities in international economic relations namely international division of labour, economic policy choices, and international trade. The world has become a global village, making whatever happens at one end of the world to have direct and/or indirect impact on other part(s) of the world. The international division of labour and the new international economic relations present the various dimensions of exploitations prevalent on the international scene. The factors that influence economic choices of nation states are also enunciated. A robust discussion on international trade was carried out. The debate with regard to trade liberalization and trade protection were exhaustively discussed.



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Possible Answers to Self-Assessment Exercises (SAEs)

Answer to SAEs 1

- 1. C
- 2. True
- 3. Protection
- 4. D
- 5. B