

**COURSE
GUIDE**

**POL861
THEORIES OF POLITICAL ECONOMY**

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COURSE DESCRIPTION

POL 861: Theories of Political Economy (3 Credit Units)

Review of major doctrines and theories of economic policy from Mercantilism to Keynesianism. Emphasis is on classical, Marxian, and neo-classical political economy, with focus on the major works of the leading protagonists and critics.

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INTRODUCTION

POL861 – Theories of Political Economy is a one semester course designed for Master of Science (M.Sc.) Political Science students. It is a three-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 the nexus between economics and politics; the perspectives of the various schools of thought, with particular emphasis on the classical, Marxian, neo-classical, and the Keynesian theories. It explores how economic factors affect political institutions and how political action affects economic behavior.

COURSE AIM AND OBJECTIVES

The primary aim of this course is to provide M.Sc. students of Political Science with a comprehensive knowledge of the Theories of Political Economy. However, the course's specific objectives include enabling you to:

- i. Have a working knowledge of political economy by understanding the nexus between politics and economics;
- ii. Understand the perspectives in political economy notably the classical, marxism, neo – classical, and keynesian;
- iii. Analyse the modes of production such as primitive communal, slave owing, feudal, capitalist and communist modes of production;
- iv. Appraise the implications of government's economic policy choices, and the impacts of international trade;

The specific study outcomes 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 study outcomes 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:

1. Course Guide
2. Study Units
3. Textbooks
4. Assignments

STUDY UNITS

There are 20 study units in this course. They are:

Module 1	Foundational Issues in 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	Pre-Classical and Classical Schools of Political Economy
Unit 1	Mercantilist Perspective of Political Economy
Unit 2	Classical School of Political Economy
Unit 3	Neo – Mercantilism
Unit 4	Debate between Mercantilism and Liberalism
Module 3	Radical Perspective in Political Economy
Unit 1	Marxists Theory of Political Economy
Unit 2	Historical and Dialectical Materialism – Communalism
Unit 3	Historical and Dialectical Materialism – Pre-Capitalist Class Divided Societies
Unit 4	From Capitalism to Communism
Module 4	Neoclassical and Post Neoclassical Perspectives of Political Economy
Unit 1	Neoclassical Perspective of Political Economy
Unit 2	The Keynesian Perspective of Political Economy
Unit 3	Modernization and Dependency Perspectives in Political Economy
Unit 4	Underdevelopment and Dependency Theorists

Module 5**Other Theories of Political Economy**

Unit 1	Economic Approaches to Politics
Unit 2	Power-Centered Approaches to Political Economy
Unit 3	State-Centered Approaches to Political Economy
Unit 4	Justice-Centered Theories

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 postgraduate 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 of all the assignments submitted for marking)	Four assignments, each marked out of 10%, but highest scoring three 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 Guide	Theories of Political Economy		
Module 1	The Subject Matter of Political Economy		
Unit 1	Conceptualization of Political Economy	Week 1	Assignment 1
Unit 2	Historical Evolution of Political Economy	Week 1	Assignment 1
Unit 3	Basic Concepts of Political Economy	Week 2	Assignment 1
Unit 4	The Economics and Political Economy Nexus	Week 2	Assignment 1
Module 2	Pre-Classical and Classical Schools of Political Economy		
Unit 1	Mercantilist Perspective of Political Economy	Week 3	Assignment 1
Unit 2	Classical Perspective of Political Economy	Week 4	Assignment 1
Unit 3	Neo – Mercantilism	Week 5	Assignment 1

Unit 4	Debates between Mercantilism and Liberalism	Week 5	Assignment 1
Module 3	Radical Perspective in Political Economy		
Unit 1	Marxists Theory of Political Economy	Week 6	Assignment 1
Unit 2	Historical and Dialectical Materialism – Communalism	Week 6	Assignment 1
Unit 3	Historical and Dialectical Materialism – Pre – Capitalist Class Divided Societies	Week 7	Assignment 1
Unit 4	From Capitalism to Communism	Week 8	Assignment 1
Module 4	Neoclassical and Post Neoclassical Perspectives of Political Economy		
Unit 1	Neoclassical Perspective of Political Economy	Week 9	Assignment 1
Unit 2	The Keynesian Perspective of Political Economy	Week 10	Assignment 1
Unit 3	Modernization and Dependency Perspectives in Political Economy	Week 11	Assignment 1
Unit 4	Underdevelopment and Dependency Theories	Week 12	Assignment 1
Module 5	Other Theories of Political Economy		
Unit 1	Economic Approaches to Politics	Week 13	Assignment 1
Unit 2	Power – Centred Approaches to Political Economy	Week 14	Assignment 1
Unit 3	State – Centred Approaches to Political Economy	Week 15	Assignment 1
Unit 4	Justice – Centred Theories	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 POL861: 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 pen on paper 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

1. There are 20 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 suits 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.
2. 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.
3. 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.
4. 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.
5. Read this course guide thoroughly. It is your first assignment.

6. 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.
7. Important information; e.g. details of your tutorials and the date of the first day of the semester is available at the study centre.
8. 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.
9. Once you have created your own study schedule, do everything to stay faithful to it.
10. 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.
11. Turn to Unit 1, and read the introduction and the study outcomes for the unit.
12. Assemble the study materials. You will need your references for the unit you are studying at any point in time.
13. As you work through the unit, you will know what sources to consult for further information.
14. Visit your study centre whenever you need up-to-date information.
15. 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.
16. 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.

17. 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

Theories of Political Economy introduces you to the general understanding of the fundamentals and theories of Political Economy. It is designed to enable you have a comprehensive understanding of the theories of 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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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

Unit 1 Conceptualization of Political Economy

Unit Structure

- 1.0 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.



1.3 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 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). Political economy 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 Accessed on 29/04/2022)

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 largely 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, the 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 economy 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 include-

- 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 these, 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 the 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 economists 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 Reading

Balaam, D. N. and Veseth, M. A. (2022, January 23). *political economy*. *Encyclopedia Britannica*.

<https://www.britannica.com/topic/political-economy> (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.

Oatley, T. (2019). *International political economy*. New York & London: Routledge. Available at www.routledge.com/9781138490741.

Ryndina, M.N.; Chernikov, G.P and Khudohormov, G.N. (1980). *Fundamentals of Political Economy*. Moscow: Progress Publishers.



1.6 POSSIBLE ANSWERS TO SELF – ASSESSMENT EXERCISES (SAES)

Answer to SAEs 1

1. A
2. D
3. 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. Its 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. 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 the study of the subject matter
- Evaluate the circumstances that made political economy to emerge as a distinctive field of study.



2.3 Historical Evolution of Political Economy

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>). The 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) (Encyclopaedia 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-centered analysis and policies to counter the state-centered theories of the mercantilists (Encyclopaedia 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 most-favoured-nation trading status despite the 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 of democracy but also from conservative Chinese Communist 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*



2.4 Summary

In this unit, effort has been made to trace the historical development of political 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 a radical approach. They opined 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.



2.5 References/Further Reading

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2.6 Possible Answers to Self – Assessment Exercises (SAES)

ANSWER TO SAES 1

1. 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
 - 3.3.1. Labour
 - 3.3.2. Means or Instruments of Labour
 - 3.3.3. Objects of Labour
 - 3.3.4. Means of Production
 - 3.3.5. Relations of Production
 - 3.3.6. Mode of Production
 - 3.3.7. Base of society
 - 3.3.8. Superstructure
 - 3.3.9. Socio-Economic Formation
 - 3.3.10. Social Class
 - 3.3.11. The Bourgeoisie
 - 3.3.12. The Proletariat
 - 3.3.13. Surplus Value
 - 3.3.14. Capital
 - 3.3.15. Class Struggle
- 3.4 Self-Assessment Exercises
- 3.5 Summary
- 3.6 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.



32 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 on contemporary reality
- Apply the concepts to their daily life activities



3.3 Basic Concepts in Political Economy

3.3.1. Labour

This is the 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 added 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 purposes and infrastructure like roads and communications 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 industrialisation 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

People use instruments of labour to act on objects of labour i.e. on everything to which man's labour is applied. Man finds objects of labour in the environment, in nature itself. All the primary objects of labour—minerals, animals and plants, the 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 constitute 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 on the other hand.

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.

3.3.9. 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 Frederick 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.

3.3.10. 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.

3.3.11. 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.

3.3.12. 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.

3.3.13. 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 in the form of profit: the capitalist owns the means of 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.

3.3.14. 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.

3.3.15. 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 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.

3.4 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*



3.5 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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3.7 Possible Answers to Self – Assessment Exercises (SAEs)

Answer to SAEs 1

1. C
2. A
3. 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 Self-Assessment Exercises
- 4.5 Summary
- 4.6 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 exposes 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 which 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. Samuelson (1947) 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). 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) tried 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”. According to Beeson (2019:201), there is “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. Accessed Online at <https://www.economicshelp.org/blog/11298/concepts/the-relationship-between-economics-and-politics/> on 29/04/2022. For instance, positive economic performance or otherwise can decide the fate of an incumbent who is seeking re-election.

On the other hand, 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.

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 privatisation, or perhaps they find tax cuts do actually increase economic welfare.

A politician, they can decide to 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 was 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.

4.4 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*



4.5 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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4.6 Possible Answers to Self – Assessment Exercises (SAES)

Answer to SAEs 1

1. A
2. C
3. B
4. A

MODULE 2 PRE-CLASSICAL AND CLASSICAL SCHOOLS OF POLITICAL ECONOMY

Unit 1	Mercantilist Perspective of Political Economy
Unit 2	Classical School of Political Economy
Unit 3	Neo – Mercantilism
Unit 4	Debate between Mercantilism and Liberalism

Unit 1 The Mercantilist Perspective of Political Economy

Unit Structure

- 1.1 Introduction
- 1.2 Learning Outcomes
- 1.3 The Mercantilist Theory of Political Economy
 - 1.3.1. 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 economy 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 sets 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 of 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.



1.3 The Mercantilist Theory of Political Economy

Mercantilism is an economic policy that is designed to maximize the exports and minimize the imports for an economy. It 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 of trade, especially of finished goods (accessed Online at <https://en.wikipedia.org/wiki/Mercantilism> 12/04/2022).

Following a long-standing tradition in the West, the mercantilists (the commercial politicians 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 Mediterranean trade in bullion. However, the empiricism of 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 seventeenth- and 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 Ekelund and Tollison (1981) 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.

Mercantilist ideas were the dominant economic ideology of all of Europe in the early modern period, and most states embraced it to a certain degree. Mercantilism was centred on England and France, and it was in these states that mercantilist policies were most often enacted.

The policies have included:

- High tariffs, especially on manufactured goods.
- Forbidding colonies to trade with other nations.
- Monopolizing markets with staple ports.
- Banning the export of gold and silver, even for payments.
- Forbidding trade to be carried in foreign ships, as per, for example, the Navigation Acts.
- Subsidies on exports.
- Promoting manufacturing and industry through research or direct subsidies.
- Limiting wages.
- Maximizing the use of domestic resources.
- Restricting domestic consumption through non-tariff barriers to trade.

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 anti-mercantilist 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*



1.4 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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1.7 Possible Answers to Self – Assessment Exercises (SAEs)

Answer to SAEs 1

1. *D*
2. *B*
3. *A*

Unit 2 The Classical Perspective of Political Economy

Unit Structure

- 2.1 Introduction
- 2.2 Learning Outcomes
- 2.3 The Classical Perspective of Political Economy
 - 2.3.1. The History and Nature of Classical Perspective of Political Economy
 - 2.3.2. Shift from Politics to Non-Politics aspect of Life
 - 2.3.3. Criticisms of the Classical 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. Its 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.



2.3 The Classical Perspective Of Political Economy

2.3.1. The History and Nature of Classical 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). In fact, the classical economists of the eighteenth and nineteenth centuries were the first to use the term ‘political economy’ (Roll, 1953; Walsh and Gram, 1980).

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 individual-centred 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 individuals 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 the 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's 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 favour 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.

2.3.2. The Shift from Politics to Non-Politics aspect of Life

Political economy gave considerable impetus to the shift of focus away from politics in understanding the forces that account for the large historical movements that mould the social world. Adam Smith saw the rise of civilized society as the result of profit-seeking behavior rather than of any plan known to and instituted by a political process or public authority. The transition from the "savage state of man" to civilized society was, for Smith, the historical work of capitalism. Yet, it was the unintended consequence of a multitude of actions taken for purely private purposes (Caporaso and Levine, 2005).

Marx took this idea much further. He described the process by which epochal changes were brought about in methods of production, social relations, and ways of life, all as the unintended consequences of the pursuit of private gain. Marx's materialist conception of history expresses with special force the subordination of politics and of the decisions of a public authority to the immanent and inexorable forces set loose and operating within society (Caporaso and Levine, 2005).

The emergence of political economy helped to mark the demotion of politics and the elevation of the nonpolitical part of civil life. Indeed, it contributes to the redefinition of civil life away from politics and in the modern direction *Political economy in the classical tradition* of private affairs pursued outside of the household, in the world of business. The rise of political economy means the rise of civil society in contradistinction to politics (Caporaso and Levine, 2005).

The demotion of politics could hardly be better expressed than by the invisible hand metaphor of Adam Smith. Although Smith's view is in some ways extreme, it very clearly articulates a new relationship between political and civil society (or politics and economics). This new relationship arises, in part, out of a rethinking of the possible and reasonable purpose of the state. To see this clearly, consider the following description of government provided by Steuart, and more in line with older ways of thinking:

The great art of government is to divest oneself of prejudices and attachments to particular opinions, particular classes, and above all to particular persons; to consult the spirit of the people, to give way to it in appearance, and in so doing to give it a turn capable of inspiring those sentiments which may induce them to relish change, which an alteration of circumstances has rendered necessary. (1966:26)

Steuart attempts to combine two important ideas. First, he expresses the notion (which we have emphasized) that change arises out of forces and

processes immanent in society and not decided by the state. Second, at the same time, he sees a crucial role for the state in recognizing the necessity of those changes and leading society through them. Changes in what Steuart terms the "spirit of the people" are gradual and immanent rather than planned. Because these changes are gradual and immanent, they may escape the perception of the people. This failure may lead individuals to misjudge their own and society's interest. The state must take a leading role in educating individuals to their genuine interest, both private and public.

Smith and Steuart, while writing at approximately the same time, judge the possible and desirable functions of government quite differently. Steuart does not directly participate in the devaluing of politics, although his acceptance of the necessity of the laws of political economy points him in that direction. Smith travels the whole route and is driven that much faster to do so by his judgment of politicians, whom he considered "insidious and crafty animals" ([1776] 1937:435). This difference is important in understanding the meaning of political economy and the significance of its emergence in the late eighteenth century.

Smith's judgment depends on his now well-known solution to the problem of economic order. The solution comes in two parts. First, nonpolitical group life (civil society) must organize and perpetuate itself more or less independently of political decision making. The unit that incorporates the work of satisfying private wants is a political unit, but within that unit the production and distribution of things needed to perpetuate private life is non-political.

2.3.3. 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.

1. *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.*
2. *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*
3. *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. 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 notably, who emphasised the principle of comparative advantage, which was believed to ensure maximum utilisation of the world's scarce resources 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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2.6 Possible Answers to Self – Assessment Exercises (SAEs)

Answer to SAEs 1

1. *D*
2. *A*
3. *B*

Unit 3 Neo-Mercantilism

Unit Structure

- 3.1 Introduction
- 3.2 Learning Outcomes
- 3.3 The Neo – Mercantilist Perspective of Political Economy
- 3.4 Summary
- 3.5 References/Further Reading



3.1 Introduction

Originally, neo-mercantilism emerged as a trade strategy, which is applied at the global space. The African region was exposed to it from the receiving end as a consumer economy. However its attribute of protectionism amongst other qualities recommend it as option to be conceptualized as development ideology for Africa. Neo-mercantilism as development ideology adopts government and entrepreneurial synergy to maximize regional interest as a means of advancement in political economy. Therefore it anticipates optimal state intervention to support entrepreneurship, both formal and informal although it holds informality as an exception and not a norm. In the circumstance, market force is expected to intersperse with planning rationality to manage growth in the context of regional spatial integration.



2.2 Learning Outcomes

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

- Discuss the theory of neo – mercantilism as a perspective of political economy
- Analyse neo – mercantilism as a development strategy
- Apply the neo – mercantilism as a development strategy for Africa



1.3 The Neo-mercantilism Perspective of Political Economy

3.3.1. Neo-mercantilism: a rationale for change

Mercantilism is the political economic philosophy of the sixteenth through eighteenth centuries. It is characterized by the desire of nations to enrich themselves through control of trade. It emerged as a system for managing economic growth through international trade as feudalism became incapable of regulating the new methods of production and distribution. It was a form of merchant capitalism relying on protectionism. Hence, the concept of mercantilism covers protectionist policies to promote national economic development (Hettne, 2014: 210). European nation-states used it to enrich their own countries by encouraging exports and limiting imports. This has the implication of extending market-space economy.

Epistemologically, mercantilism is a major determinant of urban form in Africa. Roughly three shades of mercantilism are discerned; namely, early mercantilism (10th – 15th century), imperial mid-20th century European mercantilism covering the capitalist colonial period, and the current 21st century Euro-American mercantilism and perhaps Chinese mercantilism under neo-liberal dispensation in post-colonial period. The first the second shades were interspersed with slave trade period (15th – mid-19th century), which witnessed a very unholy form of mercantilism that elicits reparation. Nevertheless, mercantilism as an economic entity is contextualized by three schools of thought. Each school, including the reformist, institutionalist, and neo-Marxist schools hold different positions. The position held by the institutionalist school seems to be predominant and inputs from this school are subtly regarded as orthodoxy in planning literature. The institutionalist school is more inclined towards a neo-liberal interpretation of trends since mid-20th century when Africa came under colonial rule.

The mercantilist era (10th – 15th century) in the history of African civilization when resource management was under the control of charismatic leadership is recalled. At this period space economy expressed in the spatial segregation of resource and production areas guided the growth of Kingdoms and Empires. Then mercantilism was portrayed as pre-liberal economic policy in which nations or kingdoms are seen by mercantilists as large-scale versions of a private household, rather than as firms. The internet material which expressed this view also indicates that mercantilists share with modern neoliberals the ‘view of world trade as a competition between nation-sized units’. It further

indicates that in 'neo-mercantilist ideology the policies are national policies, directed ultimately at the welfare of the nation and not of the market'.

Classic mercantilism lost favour when the rising bourgeoisie grew tired of the limitations mercantilism placed on their actions. Liberating themselves required them to secure the policy of limited state action, which was termed 'laissez-faire'. In the 1970s, the bourgeoisie turned against post-war social Keynesianism because, as with mercantilism, it limited their actions and they embraced the ideas of Milton Friedman. Following Friedman's Monetarist ideas, state action remained but very much in the background skewing the market in favour of the wealthy (Anarcho, 2005). The resultant predictable and predicted massive economic collapse, which empowered the wealthy, caused social Keynesianism to be replaced with neo-liberalism as the de facto state principle.

With neo-liberalism in place, the scale of space for mercantilism changed (Seers, 1983 cited in Hettne 2014: 223). Mercantilism seized to act as trade strategy on national space and extended to act on global space. The prefix 'neo' was added to mercantilism due to change in emphasis from classical mercantilism on military development to economic development, and its acceptance of a greater level of market determination of prices internally than was true of classical mercantilism. In essence, neo-mercantilism was founded on the control of capital movement and discouraging of domestic consumption as a means of increasing foreign reserves and promoting capital development. This involves protectionism on a host of levels namely:

- a. Protection of domestic producers,
- b. Discouraging of consumer imports
- c. Structural barriers to prevent entry of foreign companies into domestic markets
- d. Manipulation of the currency value against foreign currencies and limitations on foreign ownership of domestic corporations.

The purpose is to develop export markets to developed countries, and selectively acquire strategic capital, while keeping ownership of the asset base in domestic hands. It therefore suggests new form of protectionism that is; qualitatively different from the traditional mercantilist concern with state building and national power that is the pursuit of statism.

Therefore, neo-mercantilism as a concept is seen as a policy regime that encourages exports, discourages imports, controls capital movement, and centralizes currency decisions in the hands of a central government. This means the pursuit of economic policies and institutional arrangements, which see net external surpluses as a crucial source of profits. As an

economic theory, neo-mercantilism maximizes benefits to the interests of a country such as higher prices for goods traded abroad, price stability, stability of supply, and expansion of exports with concomitant reduction of imports.

Policy recommendations of neo-mercantilism are generally protectionist measures in the form of high tariffs and other import restrictions to protect domestic industries. This is combined with government intervention to promote industrial growth, especially manufacturing. This is why Raza (2007:1) indicates that the concept is usually not publicly acknowledged by public policy makers although on account of these measures, China, Japan and Singapore are described as neo-mercantilist. Ironically, these same measures are currently responsible for bilateral trade relations rocking developed countries, sometimes eliciting scratchy comments quoted in Steven Schlosstein (1984). Nonetheless, market economists have argued the pros and cons of protectionism. The language of neo-mercantilist policies repeats the claims in earlier centuries that protective measures benefit the nation as a whole, and governmental intervention secures the 'wealth of the nation' for future generations. Indeed, the historical evidence leads any unbiased researcher to conclude that mercantilism has generally been successful in fostering economic development. Free-trade advocates have failed to muster counter arguments for why Britain fell behind the United States and Germany by 1880, after she abandoned mercantilism in favour of free-trade in the middle nineteenth century.

As it were, neo-mercantilism or what is usually referred to as modern-mercantilism retains most of the attributes of mercantilism especially with regards to its concern for nation building rather than the inherent individual profitability attribute of modern-capitalism. Its concern for nation building separates it from the ethos of neo-liberalism and globalization. Neo-mercantilism therefore begets a peculiar neo-mercantile development ideology in which policies are national policies, directed ultimately at the welfare of the nation and not of the market, thus signalling protectionism. This presupposes mind-set and outlook issues determined by the status of productivity structures and levels of vulnerability in the global economy.

The logic for neo-mercantile development ideology for Africa is not farfetched. A recurring phenomenon in the history of African civilization is the development of market towns. Mercantile towns cradled African civilization followed by market towns termed colonial towns and then new towns that serve as administrative-cum-commercial hubs such as Abuja in Nigeria, Dodoma in Tanzania, etc. Most African cities remain largely commercial centres for trading in survivalist informal sector. The economy of most African countries maintain close relations with

resource as in most east African countries or petro-chemicals as in Nigeria, or mining as in Angola, and so on. Therefore the ideological change is strategic on grounds of relevance, adaptability, comparative advantage in operationalization, and patriotism. Moreover the cost of neo-liberalism reinforces the rationale for change.

Given the history of cities development in Africa, this discourse accepts the argument that robust marketing makes a city. To this end neo-mercantilism as development ideology for Africa enjoys some measure of justification. Africa is likely to remain a resource marketer into the foreseeable future considering its lack of technology to harness its resources and on the other hand the impact of global capitalist system reinforced through neo-liberal economic policies to retain Africa in peripheral economy as source region. However, source region in the neo-mercantile ideology being expounded is conceptually not limited to the source of natural resources because transitional growth according to Rostow (1977) five-stage development of spatial systems is anticipated. This is why under neo-mercantile development ideology it is anticipated that African spatial systems can retain its market region outlook but not in the sense of neo-liberal permutations for purposes of extending the market space economy of external economies. To the contrary, the market region legacy shall revert to its mercantile period significance for nation building in Africa.

Preference for neo-mercantilism is a strategic choice. The choice for neo-mercantilism draws from its concern for nation building coupled with its antecedents in nurturing traditional African civilization successfully. The neo-African planning theory that was proposed by neo-mercantilism is expected to assume the status of a general theory committed to handling humanistic interventions responsible for urban change. This outlook is mindful of population growth and urbanization and urban growth phenomenon anticipated in the African region in the new millennium. Moreover, human-induced land use changes are considered the prime agents of global environmental changes (Ramachandra et al. 2012). Meanwhile the new planning theory engages spatial metrics analysis to address spatial equilibrium in planning alongside spatial determinism in economics. This elicits neo-mercantile planning paradigm which is built on five canons; first is the innovation of time element in planning, second is upholding humanistic intervention as principal determinant of urban change, third is merging economic and spatial planning, forth is adopting creative outlook, and fifth is positioning transportation as a central element in spatial planning. Mind-set and outlook issues are mainstreamed in the set-up.

3.3.2. Neo – Mercantilism as a Development Ideology for Africa

In the effort to put forward neo-mercantilism as a model of development ideology for Africa, the perception of two terms is critical. These terms are ‘ideology’ and ‘development’. The term ‘ideology’ is held to be a comprehensive normative vision, a way of looking at things, as argued in several philosophical tendencies (for example political ideologies). According to information in an internet post, recent analysis posits ‘ideology’ to mean ‘a coherent system of ideas, relying upon a few basic assumptions about reality that may or may not have any factual basis.’ It goes further to state that ‘ideas become an ideology (that is, become coherent, repeated patterns) through the subjective ongoing choices that people make, serving as the seed around which further thought grows.’ This definition, which accords with definitions such as given by Manfred Steger and Paul James (2010), suffices.

The other term ‘development’ is commonly associated with economic growth and modernization. Friedmann (1972) gave this indication although its usage is generally linked with economists. Friedmann’s perception is applicable but its modernization attribute has imperial connotations. Graphically and more importantly, ‘development’ is held to be a growth process concerned less with modernization than with the spread of social justice, and the essence of social justice is not wealth but fairness. This position agrees with Takoma’s (2013) postulation that industrialization, electoral democracy, and economic expansion are not things to be valued in themselves, but means (or, in some cases, obstacles) to deeper ends of social justice. Accepting Takoma’s insight, the amalgamation of the terms ‘development’ and ‘ideology’ that is ‘development ideology’ is preferably perceived as a compendium of rationalized policies and aspirations conceived in the context of competing doctrines.

At the outset, neo-mercantilism as a development ideology draws from the conceptual meaning of mercantilism as trade methodology which Werner Raza (2007) presented. Hence its adaptation as a development ideology requires a theoretical foundation. The developmentalism theory provides this foundation in so far as the theory conforms to the notion, taken from an internet post, that the best way for Third World countries to develop is through fostering a strong and varied internal market, and perhaps to impose reasonable tariffs on imported goods. This notion is central to planning for regional spatial integration in Africa. Some other points of departure presupposes that developmentalism sheds its Eurocentric viewpoint of development, a viewpoint that often goes hand in hand with the implication that non-European societies are underdeveloped. It also has to shed its Universalist approach to development, which is not time and space specific. Its use of classic

western standards, theories, and models including all appearances of vulnerability to imperialism and tendencies of neo-colonial financial mechanisms will have to discontinue.

Neo-mercantilism as development ideology adopts government and entrepreneurial synergy to maximize regional interest as a means of advancement in political economy. Therefore it anticipates optimal state intervention to support entrepreneurship, both formally and informally although it holds informality as an exception and not a norm. In which circumstance market force is expected to intersperse with planning rationality to manage growth in the context of regional spatial integration. Therefore, spatial factors framed on distributive justice sought with territorial planning principles, will inform neo-mercantilist ideology as policy instrument for African regionalism. This is underpinned in the regional framework the Economic Commission for Africa (ECA) seeks for Africa.

In anticipation of new regionalism, neo-mercantilist ideology implicates the perception of functional regions as positive space economy. Earlier submissions on positive space economy suffice and are here correlated to neo-mercantile development ideology as a planning methodology. This will be elaborated shortly. Meanwhile, neo-mercantile development ideology also implicates worldwide cities concept. This is a new concept of cities classification that applies differently from the global cities concept and is presumed for use in the neo-liberal frame of new regionalism. Therefore, mindful of global tendencies towards new regionalism there are three cognate scenarios in the conceptualization of neo-mercantilism as development ideology. They are: the intuitive platform, the socio-economic policy permutations, and the outlook of cities in neo-mercantile dispensation.

In the first instance, the intuitive platform signifies that the ideology requires a positive mind-set and a visionary outlook which Mangu (1998) shared in his call of Africa to action. The requisite mind-set takes bearing from the tenets of *negritude*, the cultural movement Davison et al. (1966:22) referred to that portrays the rich heritage of African ancestry rediscovered by intellectual explorers to rescue a main section of humanity from unhappy misunderstanding. The mind-set built on the threshold of *negritude*, hopefully will redress *a priori* colonial mentality bequeathed by colonialism and will help to repackage African civilization that will once again rest 'upon social and cultural advances of great antiquity' (Davison et al. 1966:22).

Secondly, in tune with Dembele's (1998) call to reconnect the African people with those fundamental values of self-respect, dignity, pride, moral integrity, self-reliance and independence, traditional ideologies

such as *Ujamaa*, *Ubuntu* and *Omenani* will be used to define neo-mercantile development ideology as a socialization process. To this end, socialization into new values will be encouraged at homes and at civic and religious institutions and high fidelity compliance is expected given the malleable nature of traditional and contemporary African societies. The new values seek eco-centrism as standard for mobilizing the culture of eco-cities to serve as antidote, for what Simone's (1998:17) identified as failed simulations of external notions of urbanity in African civilization. The new order preaches the values of reverence, humility, responsibility and care. The ethos of transcendentalism draws from these values as a transformative mechanism to encourage back-to-land measures but not in the traditional sense of subsistence. Indeed, a sense of starting all over within limits of existing asset base and conformity to affordable standard of living is in the bargain. This is intended to limit dependency and downsize the swag of international financial mechanisms in the development of the economic system.

The primary economic policy of neo-mercantilism as a development ideology rests on regional cooperation for resource marketing and agro-business. This is contemplated under the banner of NEPAD in its African renaissance frame. The policy provision implicates rigorous land system and land management reforms similar to the reforms contained in the Wise Land Use Act 2012 in South Africa. It is also geared towards integration that promotes new regionalism as envisaged in the Regional Integration Facilitation Forum (RIFF). However, following insights from Woronoff's (1984) record of international reactions to Japan's surplus trade with the rest of the world, resource marketing policy and trade relations are built on the principle of fair trade. This is to say that the volume of trade transactions as two-way traffic will depend on the resource base of each African country. Countries with limited resources will moderate and downsize their trade transactions accordingly. This is to be expected anyway, but the hard truth is that this scenario carries along with it the lowering of standard of living in such countries. Affected countries, after a peer review evaluation, will be justified to engage in explicit protectionism regardless of globalization. Elevation from lower standard of living will be determined internally, pending the resourcefulness of such countries to grow their economy with their human and land resource.

Therefore, the philosophy of neo-mercantilism as development ideology holds that a positive space economy is a prerequisite for growth and development, on the condition that the space economy is free from distortions as speculated in Hicks (1998) submission, and resistant to Wallerstein's (2004) dependency thesis. The ideology also holds that the meaning of integrated urban economy follows Edwardo (1990) explanation of urban systems and is therefore incomplete if it is not

expressed in space. This explains why the outlook of the ideology as a planning methodology accepts planning rationality as a requirement for spatial integration and growth. Thus, the ideology in principle deviates marginally from the creative attributes of formal planning theory. Thus, a neo-mercantile planning theory that draws from Baeten's (2012) argument to uphold creative principles in planning, and agrees with Simone's (1998) quest to pursue economic and socio-cultural renaissance, suffices. And as entry point to African renaissance, the neo-mercantile planning theory commits to (re)think the space economy. This aspiration accords with Nabudere's (2003) thinking of re-engineering epistemological foundations of imperialism. Within the transition period, informality will be treated in neo-mercantile planning theory as an exception and not a norm but all within the framework of integration planning. To this end, Watson's (2009) work comes handy to program palliative measures, which trade-offs with remedial structures built with the anticipated neo-mercantile planning theory.

Thirdly, neo-mercantilism as development ideology shares the outlook that contemplates the worldwide cities concept for greater Africa. The 'worldwide cities' concept is a pathfinder perspective of global cities proposed for application in the delivery of new regionalism, in the context of neo-mercantile development ideology. The worldwide cities concept basically seeks synergy between Africans in Diaspora and Africans in the homeland. Therefore, the concept will associate with the 'hyperspace' syndrome that downplays spatiality, and upholds social equity across ethnic (racial) boundaries. Lessons from the worldwide conception of cities that sustain ecclesiastical states of Christian and Islamic kingdoms such as the Vatican City, and the cities of Mecca and Medina, illustrate the space less limits of these cities that immortalize civilizations. Thus, it will realign the forces of Diaspora and bring the contributions of Africans in Diaspora to bear on the economy of greater Africa and in the process, rework the status of Africa in the world system. A synonymous scenario relates to the functioning of Jewish Americans in relation to the State of Israel. These cities will be propelled with the instrumentality of human culture that sub-ordinates all other development factors in science and technology. The conceptual city will become operational with the slogan 'The African city is Here' implying that the individual African is an embodiment of his homeland city, essentially the urban region that is personified where-so-ever he finds himself, anytime.

The main challenges before neo-mercantile development ideology are mainly in the domain of epistemological ideologies such as imperialism, the informal sector, informalization, informal planning, liberalization vis-à-vis free-trade, and anti-protectionism, etc. These ideologies are critical support structures used to establish the hegemonic influence of

neo-liberalism. And for the hegemonic status of neo-liberalism to remain, Leys (1990, quoted in Peck, et al. 2009) imputes that: 'it is merely necessary that it has no serious rival.' So to rescue Africa from the imperial straps of neo-liberalism will require commitment to experimentation, and as Simone (1998:108) puts it, 'experimentation is not risk free.' Primary amongst the straps that require serious attention is funding. To this end, neo-mercantile development ideology is conceived with some measure of time-bound socialist principles to encourage minimalist funding, and exploit reliance on human capital for harnessing agrarian agriculture as leeway for agro-business.

Meanwhile neo-mercantilism is framed with a scale of space and time. That is to say, it is meant for Africa in the twenty-first century. Within this period, the growth vision for Africa is framed to secure food sufficiency and security. Beyond the twenty-first century, the tenets of neo-mercantile development ideology is due for review but hopefully then, Africa will be properly positioned to engage global economic orthodoxies.

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 an attribute of the neo-mercantilism policy regime?
 - A. Encourages exports
 - B. Encourages imports
 - C. Controls capital movement
 - D. Centralizes currency decisions in the hands of a central government
2. Neo-mercantilism therefore begets a peculiar neo-mercantile development ideology in which policies are national policies, directed ultimately at the welfare of the ____ and not of the market.
 - A. People
 - B. Foreigners
 - C. Nation
 - D. Governing class
3. Which of the following is not part of the traditional ideologies that will be used to define neo-mercantile development ideology as a socialization process in Africa?
 - A. Ujamaa
 - B. Omenani
 - C. Ubuntu
 - D. Utopianism



3.4 Summary

The neo-mercantile development ideology focuses on planning theory re-engineered through a natural process. Neo-mercantilism as development ideology adopts government and entrepreneurial synergy to maximize regional interest as a means of advancement in political economy. It therefore anticipates optimal state intervention to support entrepreneurship, both formal and informal although it holds informality as an exception and not a norm. In practical terms, because planning theory with capacity for regional integration is envisaged, it highlights formal planning attributes.



3.5 References/Further Reading

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3.6 Possible Answers to Self – Assessment Exercises (SAES)

Answer to SAEs 1

1. *B*
2. *C*
3. *D*

Unit 4 Debate Between Mercantilism and Liberalism

Unit Structure

- 4.1. Introduction
- 4.2. Learning Outcomes
- 4.3. Debate between Mercantilism and Liberalism
 - 4.3.1. International Trade
 - 4.3.2. Debate on Free Trade
 - 4.3.3. Trade Protection
- 4.4. Summary
- 4.5. References/Further Readings



4.1 Introduction

This unit examines the position of mercantilism and classical liberalism with respect to international trade. It shall begin the debate with the liberal perspective on free trade and proceed to the mercantilist perspective, which bothers on trade protection. This will give the students necessary foundation in the understanding of world economy as well as the major issues of contemporary international economy.



4.2 Learning Outcomes

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

- Discuss international trade
- Explain the rationale for free trade
- Explain the mercantilist idea of trade protection
- Apply the knowledge of free trade and trade protection on the international economic system.



4.3. Debate Between Mercantilism and Liberalism

4.3.1. 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 these 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.

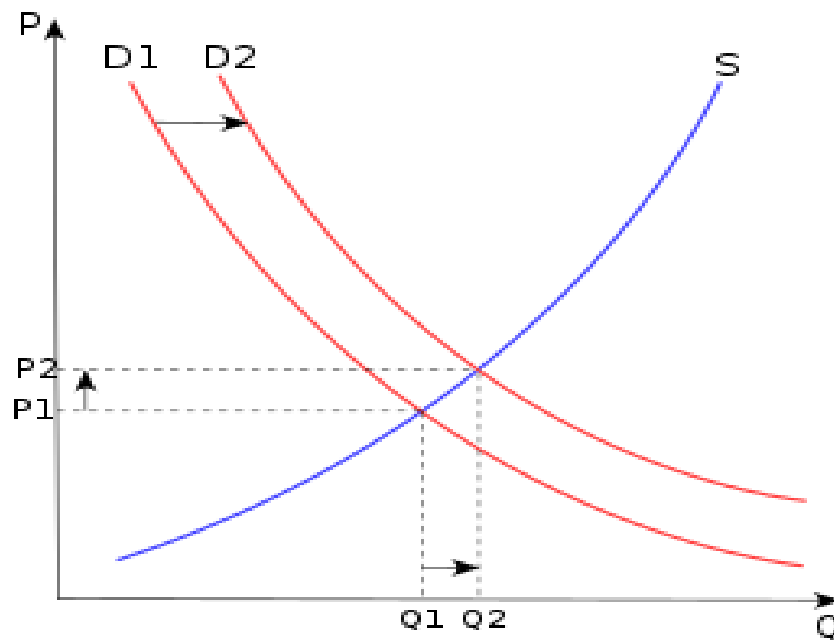
- Import controls such as tariffs and quotas that can be used to create an artificial comparative advantage for a country's domestic producers- although most countries agree to abide by international trade agreements.
- Non-price competitiveness of producers (e.g. product design, reliability, quality 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:

4.3.2. 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.

The free market economy, particularly as encapsulated by Adam Smith supports the operation of the law of demand and supply. A typical demand and supply curve is provided below:



The higher the price, the higher the quantity supplied. Conversely, the higher the price, the lower the quantity demanded. In economics, this happens in a normal situation. However, certain exceptions are plausible in some abnormal circumstances.

Benefits of free trade

- a. 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.
- b. 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.
- c. Trade liberalization increases competition in domestic markets, and thereby undermines anticompetitive practices, lowers prices, increases consumer choice, and increases national efficiency.
- d. 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.
- e. 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.
- f. Free trade and the international cooperation that it entails increase the prospects of world peace.
- g. 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:

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

4.3.3. 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

- a. Economic nationalists regard trade protection as a tool of state creation and statecraft; for example, a trade surplus is considered beneficial for national security.
- b. 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.
- c. 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).
- d. 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

- a. 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.
- b. Protection also decreases the incentive of firms to innovate and thus climb the technological ladder
- c. It discourages shifting of national resources to their most profitable use.
- d. Trade protection constitutes a heavy burden on an economy
- e. 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.
- f. Trade protection tends to protect declining non-competitive industries.
- g. Trade protection leads to the redistribution of national income from consumers to protected producer interests.
- h. 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 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 regards to trade liberalization and trade protection were exhaustively discussed.



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4.6 Possible Answers to Self-Assessment Exercises (SAES)

Answer to SAEs 1

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

MODULE 3 RADICAL PERSPECTIVE IN POLITICAL ECONOMY

Unit 1	Marxists Theory of Political Economy
Unit 2	Historical and Dialectical Materialism – Communalism
Unit 3	Historical and Dialectical Materialism – Pre-Capitalist Class Divided Societies
Unit 4	Capitalism and Communism

Unit 1 The Marxist Perspective of Political Economy

Unit Structure

- 1.1 Introduction
- 1.2 Learning Outcomes
- 1.3 The Marxists Perspective of Political Economy
 - 1.3.1 Marxist Theory of Political Economy
 - 1.3.2 Criticism of the Marxists Theory of Political Economy
- 1.4 Summary
- 1.5 References/Further Reading



1.1 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.



1.2 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.



1.3 The Marxists Perspective of Political Economy

1.3.1. 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 (Accessed Online at https://en.wikipedia.org/wiki/Marxian_economics on 30/04/2022).

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 impacted 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 the (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 group of wealthy elites.
- 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, which therefore enhances 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.

1.3.2. 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

1.3.3. 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*



1.4 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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1.6 Possible Answers to Self – Assessment Exercises (SAEs)

Answers to SAEs 1

1. B
2. C
3. C
4. A

Unit 2 Historical and Dialectical Materialism - Communalism

Unit Structure

- 2.1. Introduction
- 2.2. Learning Outcomes
- 2.3. Primitive Communal Mode of Production
- 2.4. Summary
- 2.5. References/Further Readings/Web Sources
- 2.6. Possible Answers to Self-Assessment Exercises



2.1 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 owning mode of production.



2.2 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.



2.3 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 (Access Online at <https://www.encyclopedia.com/social-sciences> 12/05/2022).

At first, people were in a half-savage state, powerless before the forces of nature. They mainly ate a 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 stones and sticks. 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 that 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. Prisoners wars being made slaves provide 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, households that made use of 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 loses all their properties and become 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.



2.4 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.



2.5. References/Further Reading

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2.6. Possible Answers to Self – Assessment Exercises (saes)

Answer to SAEs 1

1. *Primitive communalism*
2. *D*
3. *A*

Unit 3 Historical and Dialectical Materialism – Pre Capitalist Class Divided Societies

Unit Structure

- 3.1 Introduction
- 3.2 Learning Outcomes
- 3.3 The slave owning mode of production
 - 3.3.1. Brief Highlights of the Slave – Owning Mode of Production
- 3.4. The Feudal Mode of Production
 - 3.4.1. Origin of the Feudal Mode of Production
 - 3.4.2. Feudal Mode of Production
 - 3.4.3. Feudal Mode of Production at a Glance
- 3.5. Summary
- 3.6. References/Further Readings/Web Sources
- 3.7. Possible Answers to Self-Assessment Exercises



3.1 Introduction

The Pre-capitalist class divided modes of production comprise of both the slave owning and the feudal modes of production. The slave owning 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 owning 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.



3.2 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.



3.3 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 owning system.

3.3.1 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 of 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.*

3.4. Feudal Mode of Production

3.4.1. 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 retainers, 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 *verv* 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.

3.4.2. 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 number 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 Greeco-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 other 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.

3.4.3. 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 organized 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 centralized 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 were 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 development of the forces of production (<https://www.marxists.org/subject/economy/authors/pe/pe-ch03.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



3.5 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.



3.6. References/Further Reading

- Ryndina, M.N., Chernikov, G.P. and Khudokormov, G.N. (1980). *Fundamentals of Political Economy*. Moscow: Progress Publisher.
- Sabine, G. H. and Thorson, T. (1973). *A History of Political Thought*. Hinsdale, Illinois: Dryden Press.



3.7 Possible Answers to Self – Assessment Exercises (SAEs)

Answers to SAEs 1

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

Answers SAEs 2

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

Unit 4 From Capitalism to Communism

Unit Structure

- 4.1 Introduction
- 4.2 Learning Outcomes
- 4.3 Capitalism
 - 4.3.1. Brief Highlights of the Capitalist Mode of Production
 - 4.3.2. Crises of Capitalism
- 4.4 Socialism
- 4.5 Communism
- 4.6 Summary
- 4.7 References/Further Reading



4.1 Introduction

The capitalist mode of production displayed the highest dimension of class antagonism. The irreconcilability of class antagonism manifested in escalating spate of the exploitation of the proletariat by the bourgeoisie. The end of capitalism following the triumph of the proletariat as envisioned by Karl Marx and his collaborators will lead to communism through a transitory phase called socialism. This unit examines the nature of the capitalist mode of production and the inherent contradictions that will eventually transit into communism. 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 and the emergence of a classless society.



4.2 Learning Outcomes

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

- Discuss the origin, evolution, and features of the capitalist mode of production
- Discuss the origin and nature of socialism
- Explain the features of communism
- Apply the lesson to the contemporary human society



4.3 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 and 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 became prominent under the capitalist mode of production led to 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 exists 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 under-consumption.

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.

4.3.1. 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 wagedworkers 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 country folk 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 industrialization of the most important countries of Europe and America. Capitalist industrialization begins as a rule with the development of light industry. In the industrialization 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 industrialization 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 wagedworkers. 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 wagedworkers. 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 absolute impoverishment of the working class. Relative impoverishment means the decline in the share taken by the working class of the national income in the capitalist countries. Absolute 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.

4.3.2. 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 under-capacity 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 occurs an aggravation of economic crises and essential changes in the capitalist cycle.

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

4.4. 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 pre-war 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 while in the U.S.A. at the beginning of 1954 the number of wholly unemployed reached 3.7 million, and that of partly unemployed 13.4 million (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 2

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

4.5 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 insisted 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 3

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



4.6 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 proletariat is expected to lay the platform for the eventual emergence of a socialist society through a victory of the proletariat.

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.



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4.8 Possible Answers to Self – Assessment Exercises (SAEs)

Answer to SAEs 1

1. *Capitalist*
2. *D*
3. *C*
4. *D*

Answer to SAEs 2

1. *Socialist*
2. *Proletariat*
3. *B*

Answer to SAEs 3

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

MODULE 4 NEOCLASSICAL AND POST NEOCLASSICAL PERSPECTIVES OF POLITICAL ECONOMY

Unit 1	Neoclassical Perspective of Political Economy
Unit 2	The Keynesian Perspective of Political Economy
Unit 3	Modernisation and Dependency Perspectives in Political Economy
Unit 4	Underdevelopment and Dependency Theorists

Unit 1 The Neoclassical Perspective of Political Economy

Unit Structure

- 1.1 Introduction
- 1.2 Learning Outcomes
- 1.3 The Neoclassical Perspective of Political Economy
- 1.4 Summary
- 1.5 References/Further Readings/Web Sources
- 1.6 Possible Answers to Self Assessment Exercises



1.1 Introduction

Neoclassical economics is an approach to economics in which the production, consumption and valuation (pricing) of goods and services are observed as driven by the demand and supply model. According to this line of thought, the value of a good or service is determined through a hypothetical maximization of utility by income-constrained individuals and of profits by firms facing production costs and employing available information and factors of production.



1.2 Learning Outcomes

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

- Define neoclassical theory of political economy,
- Explain the features of neoclassical theory, and
- Apply the idea of neoclassical theory to the understanding of modern political economy.



1.3 The Neoclassical Theory of Political Economy

Neoclassical economics is not just a modern, updated version of classical political economy. The beginnings of the neoclassical system are placed in the 1870s with the rise of marginalist economics. Before the 1870s, economics as a system of thought was dominated by the classical agenda, namely; growth, distribution, and the labour theory of value. After the 1870s, this agenda changed in important ways, although it did not change overnight (Caporaso and Levine, 2005).

The term was originally introduced by Thorstein Veblen in his 1900 article "Preconceptions of Economic Science", in which he related marginalists in the tradition of Alfred Marshall et al. to those in the Austrian School (Colander, 2000; Aspromourgos, 1986).

The marginalist revolution succeeded in doing two things. First, it advanced a theory of value grounded in the intensity of subjective feelings (subjective utility theory). And second, it developed the marginal calculus as a powerful conceptual and methodological tool. The upshot of these two developments was that, over the span of the next three to four decades, the emerging neoclassical consensus succeeded in replacing the labor theory of value with one grounded in subjective utility and placed the ideas of "marginal product" and "final demand" at the center while elbowing into the wings the concepts of total product and total demand. With these new ideas gathering momentum as they spread during the last quarter of the nineteenth century, the economy came to be thought of less in terms of material production and reproduction and more as a logic of human action (Caporaso and Levine, 2005).

1.3.1. The structure of the neoclassical theory

Central to neoclassical thinking is the notion of "constrained choice." In this perspective, the individual is understood as a choosing agent, someone who decides among alternative courses of action according to how he imagines those actions will affect him. Economists educated in the neoclassical tradition assume that we are all motivated to seek the highest level of satisfaction of our wants, thus the highest degree of happiness we can achieve given the resources available to us.

The idea of human motivation translates into a definite theory of human action. Individuals judge what to do according to how it will affect their levels of satisfaction. How to spend one's time, what to buy in the store, whom to marry, and so on, all depend on a judgment regarding the likely impact of choices on levels of satisfaction.

In order to choose we must compare the satisfaction of various alternatives. This comparison results in a ranking of the options according to the level of satisfaction or happiness each might provide. This ranking is termed a "preference ordering." We place each option in rank order according to our preferences and attempt to attain that option highest in the ranking of our preferences or desires.

The term "rational choice" refers to decision making based on an internally consistent ordering. A preference ordering is consistent if a preference for any item A over another item B joined to preference for B over C implies preference for A over C. Rational choice seeks the highest feasible level of subjective satisfaction for the individual. By making rational choices that follow our preferences, we *ipso facto* maximize our welfare. Rational choice means maximizing behavior.

A complication arises when we look more closely at the underlying necessity of choice. What about their circumstances requires agents to choose? Choice between options may mean deciding which among a set of mutually exclusive options we want and which we do not. Such a choice faces an individual when he or she decides, for example, which school to attend or which candidate to vote for. Alternatively, choice between options may mean deciding which among a set of desired options we want more (or most) when we would like to consume the entire set but, for some reason, cannot. Such a choice faces us, for example, when we would like to have a video recorder and a microwave oven but have money enough for only one. In the latter case, our welfare would be maximized if we make the "right" choice. The difference between the two cases has to do first with the presence (in the second case) and absence (in the first case) of mutually exclusive alternatives, and second with the presence and relevance of an additional condition; scarcity.

The neoclassical approach begins with the idea of the maximization of individual satisfaction. The next step is to use this idea to define conditions for maximization of the welfare of an interconnected system of individuals. Welfare for the group must be defined differently from (although on the basis of) the welfare of the individual alone. Maximum group welfare results from maximization of welfare on the part of each member separately only when the welfare of each is entirely independent. Group welfare takes on meaning when either of two conditions is met. First, acts of consumption affect individuals other than those who have chosen to engage in them.

Second, other persons provide opportunities for mutual enhancement of welfare through exchange. The first condition requires that the activity by which an individual experiences utility (consumption) affects other

individuals either positively (that is, when my act of consumption yields an unintended benefit to someone else) or negatively (when my well-being is enhanced by an experience that harms others). Neoclassical theory terms these effects on others "externalities." When such externalities (or social consequences of private want satisfaction) exist, the welfare of the group cannot equal the sum of the welfare achieved by each individual on the assumption that satisfaction-yielding experiences are separable.

1.3.2. General Discussion on Neoclassical Political Economy

Neoclassical economics is a theory of voluntary exchange and efficient allocation of resources. Its analytical starting point is the self-interested individual, operating in an environment where many potential objects of satisfaction are in commodity form, and where, in Macpherson's words, the aim of action is "the competitive maximization of utilities" (1973: 5). In this kind of world, individuals will freely contract to do the best they can, subject to endowments, technology, and existing rules.

Clearly, market exchange and efficient allocation are central to neoclassical economics. Once this view of the world is in place, it invites a particular way of thinking about political economy. It highlights the contractual arrangements that individuals and firms make to improve their lots. For the consumer, the relevant question is how to dispose of resources so as to maximize utility. For the producer, the question is how to utilize endowments so as to maximize output and profit. Thus economics, as Schelling puts it, has become the science of superior trades, the "something better" approach (1984:15).

The neoclassical idea of political economy is subsidiary to the central focus of efficient exchange within markets. Once individual welfare is at the centre, and this welfare is equated with fulfillment of preferences, politics becomes an alternative instrument to achieve what cannot be efficiently achieved by the market. This makes market failure the master idea of neoclassical political economy. Markets may fail in the ways we have discussed. They do not define and institute property rights; they cannot put into place their own preconditions. They may involve significant externalities, problems of public good production and loss of competition through industrial concentration.

We have explored the idea of linking political economy to market failure. When we focus on market failure, we leave out of account one important feature of neoclassical thinking. The welfare improvement stemming from voluntary contracts (in the absence of public goods and externalities) is relative to the initial distribution of endowments. It is the best we can do accepting who owns what at the outset.

"Voluntary," in this context, means absence of coercion by another person. It does not require that any specific set of options actually be available to the individual. The less wealth we own at the outset, the fewer the options the market affords, the less well off we are likely to be as a result of the result of exchange.

The market does not redistribute property in the interests of equality of life chances or of removing goods from those that have a surfeit and giving them to those having little. Thus, it is important to bear in mind that neoclassical propositions regarding the virtues of the free market are all limited in this way. Such a limitation does not in itself make those propositions uninteresting or irrelevant. It does, however, better identify their meaning and significance. In certain contexts (of poverty, acute inequalities, severe limitation of life chances), the neoclassical propositions carry less weight and capture our attention less than they might in others.

If neoclassical political economy is based on the idea of market failure, it is appropriate to evaluate this conception. Our comments centre on the special competence of markets and conceptions of the political that are different from the neoclassical idea. Some theories of political economy concern the way we draw the line between outcomes left to the market and those determined by state action (Caporaso and Levine, 2005).

Neoclassical political economy attacks the question of how to draw a line via the notion of market failure. The line is drawn by reference to a specific conception of the competence of markets- what the market does when it functions well- and the circumstances under which that competence breaks down. When the market fails, it is the function of the political process to carry out the mission of the market by other means (Caporaso and Levine, 2005).

The notion of (Pareto) optimality best expresses the neoclassical vision of the special competence of markets and their overall mission. So, the success or failure of the market can be judged by the optimality of its outcomes. These, in turn, are not evaluated first in empirical terms, but in relation to a theoretical claim: that perfectly competitive markets will be Pareto optimal and that restrictions on competition will lead to non-optimal outcomes. Externalities and public goods imply market failure by this criterion (Caporaso and Levine, 2005).

However interesting and important the notion of optimal allocation, it is only one of several visions of the special competence of markets. Its limitations were vividly depicted by Schumpeter in a well-known comment:

A system - any system, economic or other - that at *every* point of time fully utilizes its possibilities to the best advantage may yet in the long run be inferior to a system that does so at *no* given point of time, because the latter's failure to do so may be a condition for the level or speed of long run performance (1942:83).

Schumpeter echoes the classical idea that markets are about dynamics of accumulation, innovation, and economic development rather than about the static problem of resource allocation and optimization. From the standpoint of this distinct judgment about the social purpose of the market (Levine, 1981), the question of when the market succeeds and when it fails must appear quite differently. With this difference must follow differences in judgment of the limits of the market and the line separating market outcomes from those determined by state action.

A second limitation of the neoclassical approach is that it understands the state primarily as an instrument to correct market failures. In doing so, this understanding furthers the idea of efficiency. If the market fails to respond efficiently, the state steps in. State actions can be judged by the same yardstick as market activities.

Empirically, the state may be involved in more than market failures and justifications, for state action may extend beyond efficiency. Justice and rights are in the state sphere not because they can be performed more efficiently there, but because the state rather than the market can best enforce equal protection and treatment. Justice can be a slow, cumbersome, and inefficient process.

If justice highlights the normative aspect of state activity, conceptions of power based on winners and losers highlight an empirical aspect of states not captured by market failure. Much of politics concerns the ways in which the political process and the state are used to enforce the desires of some over others. We have seen how the focus on voluntary exchange and Pareto optimality removes this avenue for neoclassical political economy. Situations in which the improvement of some worsens the position of others are difficult for the neoclassical method to grasp. Markets imply voluntary choice and choice implies freedom to leave, to "exit." One may be dissatisfied within markets, but one should never be worse off because of the choices of others (Caporaso and Levine, 2005).

The state as agent of some over others differs from the state as an instrument of mutual improvement. The neoclassical state empowers agents to achieve goods otherwise unobtainable. But the state is also an agent that empowers some to achieve goods at the expense of others.

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 beginnings of the neoclassical system are placed in the 1870s with the rise of marginalist ____*
 - A. Politics*
 - B. Economics*
 - C. Accumulation*
 - D. Intervention*
- 2. Neoclassical economics is a theory of voluntary exchange and efficient ____ of resources.*
 - A. Allocation*
 - B. Distribution*
 - C. Sharing*
 - D. Consumption*
- 3. In the neo – classical tradition, which of the following carries out the mission of the market in event of market failure?*
 - A. Economic process*
 - B. Social process*
 - C. Religious process*
 - D. Political process*



1.4 Summary

The neoclassical theory of political economy is premised on three core assumptions namely; people have rational preferences between outcomes that can be identified and associated with values; Individuals maximize utility and firms maximize profits, and people act independently on the basis of full and relevant information. It explains the theory of rational choice and individuals act rationally in making choices out of scarce resources.



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1.6. Possible Answers to Self – Assessment Exercises (SAEs)

Answer to SAEs 1

1. B.
2. A
3. D

Unit 2 The Keynesian Perspective of Political Economy

Unit Structure

- 2.1 Introduction
- 2.2 Learning Outcomes
- 2.3 The Keynesian Theory of Political Economy
 - 2.3.1 Basic Provisions of the Keynesian Political Economy
 - 2.3.2 Criticisms of the Keynesian Model of Political Economy
- 2.4 Summary
- 2.5 References/Further Readings



2.1 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 state of unemployment.



2.2 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.



2.3. The Keynesian Theory of political Economy

2.3.1. 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 (Accessed Online at https://www.investopedia.com/terms/j/john_maynard_keynes.asp on 12/05/2022).

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 impending 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 a 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.

2.3.2. 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 reduce 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)



2.4 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 emphasizes fiscal policy and encourages government spending even if it will lead to budget deficit. Keynes theory was the saving grace of capitalism.



2.5 References/Further Reading

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2.6 Possible Answers to Self-Assessment Exercises (SAES)

Answer to SAEs 1

1. *John Maynard Keynes*
2. *B*
3. *B*
4. *True*

Unit 3 Modernisation and Dependency Perspectives in Political Economy

Unit Structure

- 1.1 Introduction
- 1.2 Learning Outcomes
- 1.3 Modernisation Perspective in Political Economy
- 1.4 Dependency Perspective in Political Economy
- 1.5 Summary
- 1.6 References/Further Readings/Web Sources
- 1.7 Possible Answers to Self-Assessment Exercises



3.1 Introduction

Various arguments have been put forward to explain the causes of development and underdevelopment among nations. Some of the prominent schools in the unfolding debate are the modernization, and dependency schools. The primary logic of the modernization school is that the underdevelopment of states should be traced to the peculiar internal dynamics of that particular country. The dependency school on the other hand argued otherwise. This unit examines the arguments presented by these two schools of thought.



3.2 Learning Outcomes

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

- Identify and discuss the main thrusts of the modernisation school of thought
- Identify the main arguments of the dependency school on development and underdevelopment.
- Discuss the contemporary utility of the arguments



3.3 Modernisation Perspectives in Political Economy

The theory of modernisation seeks to identify differences on how societies designated as modernised or relatively modernising societies differ from one another. It also seeks to identify the factors that contribute to the variations and seek to generalise about how the parts of a modernised society interact as one entity. It further compares stages of modernisation and types of modernised societies. Consequently, there

existed variations in the definition of modernisation. Some of the variations focused on structural features, such as the level of education, use of inanimate sources of energy and fertility. Others focused on attitudes like secularisation, achievement orientations, functional specificity in formal organisation, and acceptance of equal relationships. Some of the arguments of the school are outlined below.

Scholars in the modernisation school such as W. W. Rostow, argue that the underdevelopment of the Third World is caused by factors internal to these societies. Specifically, they locate the root of the underdevelopment in the existence of conservative culture and traditional institutions that are not receptive to development. In fact, Sodaro (2008:305) states that “as societies progress from traditional, largely agricultural economies to industrialization, the attitude and values of the population shift as well.” The solution that is proposed is that developing countries of Africa, Asia and Latin America must modernise their traditional culture and social values to make them conducive to social development and good governance. To this end, the modernisation theory asserts that “the economic underdevelopment cannot be overcome until the society in question abandons its traditional social and institutional structures, along with their accompanying attitudes and behavioural pattern.”

Other factors include the predominance of affective orientation and primordial attachment. They assert that Third World producers exhibit attitudinal and personality variables that hinders innovation. Their argument is that a society with high achievement motive is likely to be innovative, demonstrate entrepreneurial drive and hence high level of economic development. On the other hand, traditional authoritarian societies that are prevalent in many Third World countries stifle the innovative personality that stimulates economic growth.

Another argument of the modernisation scholars is that there also exist socio-cultural determinants of the motivational and innovative behaviours that propel development. The emphasis is partly on the socio-cultural conditions that enhance the capacity of an economy to save and invest a larger proportion of its net income that was hitherto possible. These conditions are compartmentalised into polar extremes of universalism or particularism, achievement or ascription, specificity or diffuseness, affectivity or affective neutrality and self-orientation or achievement orientation. The argument drawn from these variables is that industrialised nations achieved their high level of development because they exhibit social and cultural behaviours characterised by universalism, achievement, specificity, affective neutrality and self-orientation. On the other hand, developing countries exhibit the opposite variables, which include particularism, ascription, diffuseness, affectivity and collective orientation.

Scholars of this school further observe that the political leadership of many modernising societies are often confronted with the problem of how best to adapt traditional culture of their societies to appropriate from the opportunities afforded by modern knowledge. Many of these societies are yet to effectively digest and appropriate from the new knowledge provided by modern technology. They have also not been able to successfully consolidate the modernising leadership through the transfer of powers from traditional to modern leadership. Furthermore, the Third World countries are still struggling with the challenges of economic and social transformation that require the shifting of loyalties from traditional institutions to the nation-state system and are consequently undergoing the crisis of integration and national identity. Rostow (1960) shares this orientation and maintained that the bulk of the Third World countries are still at the early stages of development. He outlined five stages, which societies pass through in their progression. These are traditional stage, pre-condition to take off, take off stage, drive to modernity and the stage of high mass consumption. Each of these stages has its own peculiar challenges and adjustments. Rostow (1960) opined that development must follow this pattern and that the underdevelopment of the Third World is caused by the fact that the social and economic systems of these societies do not motivate or encourage entrepreneurial spirit.

In the heat of the modernisation debate, there existed two contending approaches to modernisation. One identified steps along a uni-linear path. This approach assumed a high degree of individualism, democracy and an economy that allowed for little state intervention. This extreme form assumes that the history of late comers to the modernisation process is irrelevant and that they can best achieve economic growth and development by rapid democratisation and copying of western institutions, and that notions of social relationships are destined to become much as they are idealised in the United States. Critics insisted that this approach was the essence of modernisation.

Scholars of dependency school such as Samir Amin, Andre Gunder-Frank, Paul Baran, Paul Sweezy, Immanuel Wallerstein, among others who posit that there exist much more than internal contradictions within the Third World states in understanding the persistence and incidence of underdevelopment in the societies have criticized the modernisation school. Critics debunk the watertight stereotype of “traditional” and “modern” societies by arguing that the case of Japan and Britain demonstrate that modernity does not necessarily lead to the abandonment of traditional practices. Similarly, the Soviet Union opted for a state engineered pattern to modernisation, which concentrated on science and technology in education and the work place in order to advance new elite

while providing social benefits to motivate a broader mass of the population.

Finally, modernisation scholars have also been accused of being unable to be specific in supporting explanations to establish it as a powerful set of generalisation for social science analysis.

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 structural feature of the modernisation perspective of development?
 - A. Secularisation
 - B. Achievement orientations
 - C. Functional specificity in formal organisation
 - D. Institutional fragility.
2. The theory that seeks to identify differences on how societies designated as modernised or relatively modernising societies differ from one another is called _____.
 - A. Modernisation theory
 - B. Development theory
 - C. Theory of the developmental state
 - D. Socialization theory.
3. According to scholars in the modernisation school, the underdevelopment of the Third World is caused by ____
 - a. Factors external to these societies
 - b. Factors internal to these societies
 - c. Factors peculiar to these societies
 - d. Factors inimical to these societies.

2.4. Dependency Perspective in Political Economy

Ghosh (2001:1) described dependency as a form of unequal international relationship between two sets of countries. One set of countries is called the centre or metropolitan centre; and the other set of countries is called the **periphery or satellite**. The centre in this case represents developed capitalism while the periphery represents underdeveloped regions of the world. He further asserts that dependency is a kind of mechanism, which can explain the causes of economic development and underdevelopment. The essential doctrinal kernel of this theory is that the external forces, which are nothing but the central capitalism, condition the social and economic development of the Less Developed Countries (LDCs). Specifically, the metropolitan countries are the more powerful capitalist nations. These countries are geographically located in the northern

hemisphere whereas the LDCs are located in the southern hemisphere. This accident of nature has led to the notion of North-South dichotomy in development calculus.

The main endeavour of this school is that to understand the phenomenon of underdevelopment, the specific historical experiences of the underdeveloped countries in terms of the mode of their incorporation into the international capitalist economy, their functions within it and the mechanism for sustaining the conditions of underdevelopment must be considered. This is borne out of the apparent inability of theories of imperialism to provide credible explanations for the persistence of underdevelopment in many post-colonial states in Africa and elsewhere. Bodenheimer (1971) captures this line of thinking when he described dependency as the obverse side of a theory of imperialism.

The argument is that underdevelopment is the result of the dependent and asymmetrical relationship between the Third World and industrialized nations. The underdevelopment and dependency theorists further maintain that the backwardness of developing economies can be explained by exploring the process through which western capitalism broke into the indigenous pattern of development and its effects on the pattern of growth and development in these societies.

Ghosh maintains that the dependency school is originally Marxian in character because it is based on the concept of exploitation of the weaker LDCs by the developed capitalist countries. Furthermore, the dependency approach tends to explain the development of underdevelopment in Third World countries with reference to capitalistic framework of the centre. Scholars in this school include Paul Baran, Andre Gunder Frank and Samir Amin. The theory has so far attracted several explanations or nuances that have tremendously reduced the original Marxian undertone. Such interpretation includes the emphasis on exchange relations as against the Marxian tradition of production relations. This explains why the dependency theory is classified as a Neo-Marxist or Radical theory.

Specifically, the dependency theorists especially from Africa maintain that the triple tragedies of **slave trade**, **colonialism** and **neo-colonialism** are vital to understanding the incidence of underdevelopment in the Third World especially in Africa. The argument is that these phenomena distorted and disarticulated the domestic economies of the bulk of Third World economies such that instead of capitalism facilitating economic expansion and development of these societies, it contributed more to stagnation of most Third World economies. Consequently, these countries now occupy a disadvantaged position in the international division of labour and exchange.

They further contend that this historical process, which led to underdevelopment in the Third World societies, is the same historical process that facilitated development in the developed economies of Europe and America. For instance;

- a. Slave labour was forcibly uprooted from Africa which had cultivated wealth for Europe and America.
- b. Colonialism, which succeeded slave trade specifically, used Africa as sources of raw materials and market for western trade.
- c. The end of the colonial era was succeeded by the advent of neo-colonialism, which is geared towards perpetuating western economic advantage of the underdeveloped economies through the activities of multinational corporations, international financial institutions and general agreements on trade.

Dependency scholars further contend that it will be extremely difficult if not impossible for development to be achieved in underdeveloped countries by the diffusion of capital, institution and values of the international metropole. This is because the underdeveloped countries serve as satellites for the metropolitan centres in the Western world, which extract capital and economic surplus from the satellite countries, which is subsequently channeled out for the development of western economies. The implication of this is that the development of Third World economies is limited by their satellite nature status and that these economies can only develop if they are able to extricate themselves out of strangulation by the western metropolis.

From another perspective, dependency scholars further trace the unequal development in the global economy to the capitalist system of division of labour, which restricts the underdeveloped countries to the production of non-industrial goods. They contend that this system perpetuates unequal exchange relationship, which has serious implications for the underdeveloped nature of most Third World economies. The argument here is that peripheral countries receive less for their exported primary products when measured in terms of expended person-hour relative to the cost of imported products that took the same time to produce. The ensuing unequal exchange will therefore perpetuate underdevelopment gap between the centre (developed economies) and the periphery (developing economies) of the global capitalist system.

Generally, the theory of dependency can explain the global operation of the capitalist system during the neocolonial era while also accounting for the presence of some colonial features of the LDCs, and the dependence of the LDC on the developed capitalist countries for the development of the LDCs. In the views of Santos (1970: 289-90), dependency arises because some countries can expand through self-impulsion while other which are dependent can only expand as a reflection of the dominant

country which may have positive or negative effect on their immediate development. Santos further maintain that dependency is a conditioning situation in which the economies of one group of countries are conditioned by the development and expansion of other more powerful and developed group of countries. The endeavour of dependency theorists is geared towards providing explanation for the persistence of this asymmetrical relation even after the attainment of political independence by these countries.

In line with the dependency paradigm, countries are classified into two opposites systems, which interact on basis of dependency and exploitation. This classification for Ghosh is the macrocosmic and the microcosmic systems. The macrocosmic system represents the advanced capitalist economies, which influence and steer the microcosmic system comprising of LDCs. The macrocosmic system is more powerful, stronger and better organized. This system usually subsumes the microcosmic system, which is rendered weak, porous and economically vulnerable.

The significant features of these systems are outlined below:

Microcosmic System	Macrocosmic System
Pre-capitalist in orientation	Capitalist in orientation
Poor and backward	Advanced and rich
Producer of primary products	Importer of raw materials
Importer of finished products and technology	Producer of finished products
Poor capital base	Rich capital base
Cheap and abundant labour	Labour is scarce and expensive
Lack basic technology	Possess advanced technology
Dependent on the macrocosmic system	Relatively independent

Source: Ghosh (2001)

Accounting for the incidence of core-periphery relations, Ghosh (2001:5) maintains that development and underdevelopment are the two processes of the same world-wide integrated capitalist system. For him, the core draws away surplus from the periphery, and as a result, the core becomes developed and periphery becomes underdeveloped. From this, he asserts that underdevelopment is a historical stage in the development of capitalism, which can be explained in terms of the relations of domination in exchange. The ensuing domination mainly manifest in extracting the surplus from the LDCs. The result is the widening of existing inequalities between the core and periphery. It is based on this that he maintained that the development of the periphery is possible only when its relationship with the centre is severed through what is called 'delinking' from international capitalism.

Ghosh (2001) further identified various ways through which dependency manifest. These are technological dependence, economic and financial dependence, the resort to aid from developed capitalism to settle adverse balance of payment problems, the inability of the LDCs to chart out and follow an independent policy of capital accumulation and the apparent dependence of the LDCs on the developed economies for the sale of the former's raw materials and primary products. This tends to give credence to the assertion that without the aid of the developed capitalist countries that it is almost impossible for the LDCs to develop.

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. Which of the following is not part of the triple tragedies vital to understanding the incidence of underdevelopment in the Third World especially in Africa?
 - A. Slave trade
 - B. Free trade
 - C. Colonialism
 - D. Neo- colonialism
2. According to underdevelopment and dependency theorists, dependent and asymmetrical relationship between the Third World and industrialized nations resulted to the ____ of Third World Societies.
 - A. Development
 - B. Poverty
 - C. Inequality
 - D. Underdevelopment
3. Development and underdevelopment are the two processes of the same world-wide integrated ____ system
 - A. Specialist
 - B. Capitalist
 - C. Socialist
 - D. Communist



2.5 Summary

Despite its shortcomings, the modernisation school remains useful in attempts to explain the development problematic in the bulk of the Third World. The observable shortcoming opens another perspective to the development debate. This vacuum is what dependency scholars sort to fill.



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2.7 Possible Answers to Self Assessment Exercises (SAEs)

Answer to SAEs 1

1. *D*
2. *A*
3. *B*

Answer to SAEs 2

1. *B*
2. *D*
3. *B*

Unit 4 Underdevelopment and Dependency Theories

Unit Structure

- 1.1 Introduction
- 1.2 Learning Outcomes
- 1.3 Paul Baran' Analysis of Economic Backwardness and Economic Growth
- 1.4 Andre Gunder Frank's Analysis of Development of Underdevelopment
- 1.5 Samir Amin Postulation on Unequal Development
- 1.6 Summary
- 1.7 References/Further Reading
- 1.8 Possible Answers to Self-Assessment Exercises



4.1 Introduction

Paul Baran is unarguably one of the foremost scholars who sought to explain the phenomenon of dependence. Baran's ideas were expressed in the following works; "On the Political Economy of Backwardness" in *The Manchester School* (January 1952), *The Political Economy of Growth* and in *Monopoly Capital*, a book he wrote with Paul M. Sweezy. The central argument and logics expressed by Baran are discussed to give a good understanding of economic backwardness and economic growth below.

This unit also examines the main highlights of Andre Gunder Frank's thesis on the development of underdevelopment and Samir Amin postulation on unequal development. It is important to note that Frank's logic reflects an extension of the arguments of Baran. Simply put, he maintained that the underdevelopment of the LDCs arose from the way through which they were incorporated into an international capitalist system dominated by Western Europe and United States of America. Samir Amin on the other hand focused his analysis on the notion of unequal development. Amin utilized the overproduction-underconsumption hypothesis to demonstrate that imperialism was utilized by the global metropole to address the crisis of capitalism. This facilitated the asymmetrical incorporation of the global periphery into the international capitalism. His arguments are contained in his main works such as: *Accumulation on a World Scale* (1974), *Unequal Development* (1976) and *Imperialism and Unequal Development* (1977).



4.2 Learning Outcomes

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

- Know the major ideas of Paul Baran on economic backwardness and economic growth
- Understand the concepts of economic backwardness and economic growth
- Understand the ideas of Andre Gunder Frank on the development of underdevelopment in the LDCs
- Know the basic teachings of Samir Amin on unequal development and economic growth
- Apply the ideas of Paul Baran, Andre Gunder Frank, and Samir Amin to the understanding of contemporary third world society.



1.3 Paul Baran' Analysis of Economic Backwardness and Economic Growth

Paul Baran is one of the advocates of the Underdevelopment and Dependency Theory (UDT). Baran conceives the world as comprising of developed and backwards capitalist countries as well as socialist countries, which interact with one another. For him, development and underdevelopment are polar extremes of the process of worldwide accumulation. Baran observed that whereas capitalism expanded productivity and material welfare in the western world, in the eighteenth and nineteenth centuries, it brought stagnation in others parts of the world. Put differently, capitalism generated enormous surplus that facilitated development in many states in Europe, it facilitated the exploitation and siphoning of the wealth of the LDCs in other parts of the world. This led to growth in the metropolitan countries but frustrated economic development in the periphery or satellite countries.

Baran analysis demonstrates that neither development nor underdevelopment could be understood in isolation from the global interaction between countries of the core and the periphery. Specifically, countries of the core and the periphery have had to face different historical processes of economic evolution based on domination and exploitation of the periphery by the core. The logical consequence has therefore emerged economic development of the LDCs that will remain directly inimical to the dominant interests of the core capitalist countries because the exploitation of the LDCs constitutes an important platform for the economic development of the core. Consequently, while such asymmetrical relations could support growth in the countries of the core, the reverse is the case in the periphery.

Writing on growth, Paul Baran defined it as the increase of per capita material goods over time. This signifies growth in quantitative terms. He further identified three sources of growth. First, growth may be achieved by fully utilising the unutilised resources like population, land, capital and others. Secondly, growth can also be achieved by making some organisational changes. Such changes will involve the shifting of resources from less productive uses to more productive ones. Finally, growth can also be achieved by providing better technology and capital (Ghosh 2001: 29) Economic growth in the views of Baran depends essentially on the accumulation of surplus and its proper utilisation. He subsequently identified three types of economic surplus. These are actual economic surplus, potential economic surplus and planned economic surplus.

- a. Actual economic surplus is the difference between society's actual current output and its actual current consumption.
- b. The potential surplus is the difference between what the society could produce in a given natural and technological environment with the help of employable productive resources, and what might be regarded as the necessary consumption. Potential surplus is actually bigger than the actual surplus in a capitalist society.
- c. Planned surplus is the difference between the society's optimum output attainable in a historically given natural and technological situation obtainable in a planned economy and the optimal volume of consumption. Planned surplus is relevant in a planned economy under socialism (Ghosh, 2001: 29-30).

Under socialism, economic surplus is not determined by the consideration of profit maximization but by the stage of historical development and also by the degree of development of productive forces and the structure and growth of human needs. Baran maintains that the real important concept is not the *actual economic surplus* but the *potential economic surplus*. The concept of potential economic surplus includes the consumption spending of the state and the unnecessary consumption of the workers and capitalist. Potential surplus can be used for economic development with a different organizational set up. For Baran, potential surplus usually rise during the development of monopoly capitalism.

It is significant at this point to distinguish between surplus value as expressed by Karl Marx and the notion of surplus as expressed by Paul Baran. One significant difference is that whereas Marx expressed surplus value in relation to the ownership of means of production, Baran analysed surplus in relation to the consumption needs of the society and more specifically to the development of underdevelopment in the global capitalist system. He argued further that the core capitalist states

increasingly generate surplus while it fails to provide consumption and investment outlets required for its absorption. Rather, they impose a particular form of development on the global satellites, which ensure that the economic surpluses produced are accumulated by foreign multinationals and the domestic comprador class to the detriment of the LDCs. He insists that it is the loss of surpluses by the periphery that make such countries underdeveloped.

Furthermore, Baran contends that the LDCs are underdeveloped because they have lower production and because the degree of utilisation of human and material resources has also been lower in those countries (Ghosh, 2001). It is his position that the incidence of economic stagnation in the periphery is the inescapable consequence of the capitalist framework that exists in their economies. This capitalist framework is responsible for poor size of economic surplus in the LDCs. In addition, these countries have low capital endowment, low productivity, low savings and rapid growth of population. Furthermore, the inflow of foreign capital into the LDCs is usually designed to extract surplus from them by the core capitalists.

Similarly, the introduction of the periphery into the global capitalist system also stimulates economic and social tensions, which disrupt the prevailing order in the periphery. It further substitutes the paternalistic relationships, which existed in these countries with market contracts that compel them to produce raw materials needed in the metropole and to become market for finished products of the core capitalist economies. The outcome was an amalgam of the worst features of feudalism and capitalism which in effect blocked all possibilities of economic growth in the LDCs. (Ghosh 2001: 32)

In the LDCs, majority of the population depend on agriculture but the share of surplus that accrue to the landowning class was not utilised for economic development rather it was utilised in excess consumption. The landowning class spends huge amount for conspicuous consumption on luxury articles, on servants, on entertainment and travels. The landed aristocracy does not spend money for the improvement of agriculture. Worst, the small farmer is unable to introduce modern technology due to lack of funds and small size of land owning. This situation is further compounded by the introduction of capitalism into the domestic economy, which finally destroys what is left of the traditional cottage and handicraft industries.

The consequence is that the introduction of the monopolistic type of industry, which accompanies capitalism into the domestic economy of the dependent country, puts an obstruction to the growth of industrial capitalism. Here, the transition of capital from the sphere of circulation to

the sphere of production becomes difficult while agricultural growth becomes stagnant and this leads to structural unemployment. The point here is that since economic surplus is not utilised for economic development, the economy is only able to generate low level of surplus. This adversely affects the development of such countries.

Baran further identifies the lack of investible fund and lack of investment opportunities as the very serious problems that pose constraints on economic development in underdeveloped countries. Baran associates this to the fact that investments in those countries were simply a new experience and that large investment is dependent on already existing investment, which were then lacking in those countries. In addition, Baran argued that the prevailing uncertainty in such states such as strikes; uprisings and guerrilla warfare frustrate the inflow of investment.

Baran's analysis identified four popular fallacies often cited in discussions on obstacles of economic development. First, he debunks the notion that the lack of entrepreneurial talent is one of the main obstacles in LDCs. Secondly; he rejects the notion that LDCs lack capital. Rather, he maintains that the potential surplus in LDCs is quite large. Third, Baran does not agree with the popular belief that population problem is a serious menace to economic development in LDCs. Rather; he posits that relative overpopulation can be judged only with reference to the means of production. Finally, Baran does not agree that the falling terms of trade are responsible for economic underdevelopment (Ghosh 2001: 35).

The central points of Baran's analysis are as follows:

1. The main obstacle to rapid growth of LDCs is the way in which their potential surplus is utilised. I. e. much of the potential surplus is not realised.
2. Much of the realised economic surplus is misused by those who appropriate it.
3. Genuine efforts to overcome underdevelopment in the LDCs are usually frustrated by the animosity of imperialism especially as core capitalist countries strive to perpetually dominate the periphery.

Baran extended his analysis by exploring the possibilities of economic development of underdeveloped countries. He postulated that the establishment of a socialist planned economy through social revolution is essential for economic and social progress of underdeveloped countries. He however notes that this will certainly be confronted by the hostility of the imperial power. He also maintains that it is necessary to mobilise the potential economic surplus of a country. This will necessitate the application of such measure like the expropriation of foreign and domestic capitalists, landowners, elimination of capital drain, restriction

of consumption, flight of capital to foreign countries. Similarly, the importation of non-essential commodities should be banned while transfer of funds should be restricted. These measures in his view will generate sufficient resources for the generation of new productive employment.

It is his view that in a planned economy, there will be the growth of planned economic surplus, which can be equitably, distributed among the population of the country in such a way that it leads to optimum social and material development of the country in the long run. Likewise, agricultural development can be achieved by the use of improved seeds, improved methods of irrigation and the improved usage of better inputs like fertilizer. These measures will be complemented with the introduction of modern type of machinery, power and schemes of specialisation.

He further suggested that the government could also take up lines of production, which are not favoured by the private sector and later encourage competition. The state also has to put in place the critical infrastructures that will facilitate further profitable investments. In addition, there is the need to check the inflationary pressure through proper monetary and fiscal policies. This will be complemented by a proper type of progressive taxation for controlling inflation and eliminating wasteful consumption and expenditure on non-essential activities. Finally, the government has to open technical schools for imparting skill and growth of human capital formation.

It is important to highlight some of the criticisms, which Baran's analysis has attracted. First, his focus on economic surplus in examining the global capitalist system instead of surplus value is criticised as departing from the Marxian tradition. Secondly, it is practically difficult to distinguish between potential surplus and planned surplus. Third, it has been criticised as hinging on the theory of distribution. Fourth, Baran's emphasis that one of the causes of underdevelopment is low saving and high consumption has been condemned. Baran has also been criticised for not properly relating the facts of exploitation of the LDCs by the developed capitalist countries to the aid, trade and exchange relationship between them. Finally, he was also criticised by western scholars such as Peter Bauer and Martin Wolf and others (Korotayev and Zinkina, 2014) for advocating the establishment of a socialist state. There is absence of competition in a socialist state by subsidizing in-country industries and preventing outside imports, these companies may have less incentive to improve their products, to try to become more efficient in their processes, to please customers, or to research new innovations (Williams, 2014:44)

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 in accordance to Paul Baran did capitalism brought about in the western world in the eighteenth and nineteenth centuries?*
 - A. *Imperialism*
 - B. *Expanded productivity and material welfare*
 - C. *Stagnation*
 - D. *Colonialism*
2. *Which of the following is not a type of economic surplus according to Paul Baran?*
 - A. *Actual economic surplus*
 - B. *Accurate economic surplus*
 - C. *Potential economic surplus*
 - D. *Planned economic surplus.*
3. *Which of the following is not a critique leveled against Paul Baran?*
 - A. *His focus on economic surplus in examining the global capitalist system instead of surplus value is criticised as departing from the Marxian tradition.*
 - B. *It is practically difficult to distinguish between potential surplus and planned surplus.*
 - C. *It has been criticised as hinging on the theory of distribution.*
 - D. *It has been criticized for downplaying western magnanimity in the economic growth of the Third World.*

4.4. Andre Gunder Frank's Analysis of Development of Underdevelopment

Frank shares the view that global capitalism is an integrated system of metropolises and satellites that bound different countries, regions and rural-urban areas into dominant dependent relationships. It is his view that a systematic transfer of economic surpluses continually occurred from the base of the world structure (periphery) to the metropolitan centres of the advanced countries. Periphery in this sense refers to the underdeveloped regions of the world, which are integrated with the world capitalist system in an asymmetrical relationship, which exist to the detriment of the underdeveloped countries. The metropole in this case refers to the developed capitalist countries. It is also important to highlight that when viewed within the framework of an underdeveloped country, the centre or capital can be referred to as the national metropole, while the different rural areas are classified as national satellite.

Just as the global metropole exploits the global satellites comprising of the world's LDCs, the national metropole also amasses the economic surpluses from the national satellite by exploiting its own periphery. One central underlying orientation in both instances is the drive to accumulate surplus. This trend leads to a temporary development of the metropolitan centre of the underdeveloped country, which is then indirectly exploited by the global metropole. Frank further argued that when a particular country is incorporated into the world capitalist structure, the economy of the former country shows all the signs and symptoms of capitalism. These contradictions generate development in the national metropole and underdevelopment in the domestic periphery. Since the national metropolis is a satellite of the world metropolis, the development of the national metropolis remains limited and dependent.

Writing on the contradictions of capitalism, Frank maintains that these are contradictions which in themselves, emerge in the course of the evolution of capitalism. One such contradiction is that economic surplus under capitalism is produced by many but appropriated by the few. Furthermore, capitalism is characterised by the polarisation of the capitalist system into metropolitan centre and periphery. Quite often, the periphery is exploited and the surplus is accumulated for the development of the metropolitan centre. Consequently, another contradiction becomes the development of a metropolitan centre and also an underdeveloped periphery. Due to the monopoly structure of capitalism, the surplus generated in the global periphery is accumulated by the global metropole. Ironically, the remnant surplus in the periphery is mis-utilised and spent away on various types of underproductive activities and speculation.

Another contradiction associated with global capitalism is that having divided the world into two parts, metropole and satellite, the metropole becomes developed at the expense of the satellite. This contradiction runs in a chain throughout the capitalist system. Frank further identified the contradiction in change. By this, he means that in spite of the historical evolution of capitalism, its basic essential character and contradictions could not be eliminated. It is the views of Frank that there is no national economy, rather what exists as such are simply sectors of the global capitalist economy. The integration of the underdeveloped economies simply makes them a sector of the global capitalist system.

For Frank, the developed capitalist countries were never underdeveloped rather they were at a point undeveloped. What Frank is saying is that underdevelopment is not a historical stage of growth, which the developed capitalist countries went through, but it is the result of the historical development of the capitalist system. It is his position that the development of the LDCs will remain accentuated so long as they remain part of the global capitalist system. Put succinctly, Frank argued that

development and underdevelopment are two sides of the same system because they are the product of a single but dialectically contradictory economic structure of capitalism. Invariably, Frank shares the view that the same historical process of development of world capitalism has simultaneously produced and will continue to produce both economic development and structural underdevelopment. (Ghosh 2001: 43) In other words, the relationship between the metropole and the satellite causes underdevelopment to the periphery. It obstructs development and aggravates underdevelopment in a myriad of ways.

Gunder Frank applied his doctrine of development of underdevelopment in the study of Latin American economies. A theory of underdevelopment in the views of Frank should be capable of providing explanations to the causes and phenomenon which have been brought about and which maintain and generate the stagnation of Latin America and its distorted development. He maintained that these countries and other LDCs were incorporated into the world capitalist system to occupy a disadvantaged position. This is because their socio-economic and political structures were distorted adversely when they began to participate in the vagaries of global capitalism. For him, the problems of these countries cannot merely be solved by planning process or through foreign aid and assistance.

Furthermore, Frank contended that contemporary underdevelopment is mainly the historical product of past and continuing economic and other relations between the satellite underdeveloped and the now developed metropolitan countries. It is his view that underdevelopment is not something original or traditional and that neither the past nor the present of the underdeveloped countries resembles in any way the past of the now developed countries. For him, it is a wrong notion that development of LDCs must and will be generated by diffusing capital, institutions and values to them from the developed countries. Rather, economic development in the periphery can only occur independent of the capitalist relationship with the metropole.

Frank further maintained that underdevelopment is not because of the survival of archaic institution and the existence of capital shortage in the periphery. Rather it is generated by the same historical process, which generated economic development, that is, the development of capitalism itself. Frank outlined four hypotheses in his analysis of the development of underdevelopment. These are as follows:

- a. Within the world-embracing metropolis-satellite structure, the metropolises tend to develop and satellites tend to under develop.
- b. The satellite experiences their greatest economic development when their ties to their metropolis are weakest. The Meiji

Restoration in Japan is an example of industrialization through non-participation as a satellite in the global capitalist system. His argument was that since Japan was not a satellite state of the western capitalist system, it did not experience alien imposed structural limitations to her development.

- c. The regions which are the most underdeveloped are the ones which had the closest ties to the metropolis in the past.
- d. The greater the wealth that was available for exploitation in the past, the poorer and more underdeveloped the region today; and the poorer the region was as a colony, the richer and more developed it is today.

Another arguments advanced by Frank is that the character and nature of change in a given society are defined through market relations. He maintained that the problems of the origin of capitalism come down from the origin of expanding world market and not to the emergence of a system of free wage labour. Subsequently, he developed a circular concept of capitalism in terms of its exchange relations. He based his analysis on the premise that unequal market relations within the capitalist economy and domestic economy can produce development and underdevelopment on the international and national levels.

Frank (1967) asserts that in the LDCs, the export sector is an important source of monopoly power. The foreigner who also control many other associated fields like transport, insurance and other fields mainly controls this sector. This alien control also dominates the political and military spheres of the domestic economy. The dependency relationship that unfolds, render the LDCs incapable of moving out of the structure of underdevelopment. Under this process, the domestic bourgeois survives by extracting surplus from the national satellite and is interested in the continued foreign domination of the economy. Interestingly, the foreign bourgeois only invest very little capital into the domestic economy of the LDCs and such capitals are usually profits made from these LDCs.

Frank further observed that the structure of dependence has remained static over time despite the evident changes experienced in the basis of monopoly within the capitalist system. For instance, the inability of the LDCs to acquire modern technology has made them structurally dependent on the metropole. The LDCs also experience balance of payment deficits and have to resort to taking foreign loans and assistance. The balance of payment deficits, resultant devaluation and increased money supply lead to inflation, which distort the economies of the LDCs. Indeed, this make the LDCs trapped in a dependent structure.

Another discovery of Frank is that surplus from the LDCs are usually drained out with the able connivance of the local comprador bourgeois.

The network is such that the global metropole exploits the national bourgeois who in turn exploit the national satellite to service the needs of global capitalism. This simply implies that development at the metropole is based on the underdevelopment of the satellites.

Frank insists that the LDCs of Africa, Asia and Latin America have remained underdeveloped through their contacts with the developed capitalist states. Their economic history was shaped by their colonial status and they consequently became exporters of primary products and importers of finished foreign goods. The point is that colonial economy prevented the transformation of merchant capital to industrial capital. This dislocated their structure of production and consumption pattern and aborted growth process in the colonies.

The work of Andre Gunder Frank has attracted severe criticisms. His focus on exchange relations in the global market has been criticized as inconsistent with Marx's focus on production relations. Secondly, his excessive focus on market or trade as the determining factor in class formation neglected the specificities of internal mode of production and class structure of the periphery. His analysis did not identify the nature of relations of dependence, which keeps on changing along with changes in economic structures of the developed capitalist states. Furthermore, his analysis did not explain why certain nations needed the underdevelopment of others to build their own development. Finally his position was criticized by Peter Bauer and Martin Wolf and others (Korotayev and Zinkina, 2014) for advocating the establishment of a socialist state without necessarily looking at the internal dynamics of the states.

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. Which of the following is in the opinion of Andre Gunder-Frank referred to as the underdeveloped regions of the world, which are integrated with the world capitalist system in an asymmetrical relationship?
 - A. Rural areas
 - B. Hamlets
 - C. Periphery
 - D. Substructure.
2. According to Frank, contemporary underdevelopment is mainly the ___ product of past and continuing economic and other relations between the satellite underdeveloped and the now developed metropolitan countries.
 - A. Historical

- B. *Emotional*
 - C. *Psychological*
 - D. *Philosophical*
3. Which of the following is not an underdevelopment and dependency theorist?
- A. *Andre Gunder-Frank*
 - B. *Samir Amin*
 - C. *Paul Baran*
 - D. *V. I. Lenin*

4.5 Samir Amin Postulation on Unequal Development

One fundamental assumption intrinsic in Amin's thesis on unequal development is that imperialism is compelled to spread capitalism on the global arena. His argument is that the falling rate of profit, which engulfed capitalism in the 19th century, was caused by overproduction and underconsumption. This led him to conclude that the solution to the ensuing crisis was in the expansion of capitalist market into the global periphery. For him, capitalism required imperialism to counter the adverse effects of capital accumulation. His logic indicate that it was the falling rate of return on capital at home that compelled the capitalist world to search for new pastures in the periphery. This was accomplished in different phase. First, between 1880 and the end of the Second World War, monopoly capital from the metropole was able to export capital to oversee territories. However, following the end of colonialism, the metropole reorganized its strategy of exploitation to focus on the accumulation of surplus from the periphery through militarism, capital export and unequal exchange relations.

Amin divided world capitalism into the core (satellite) and periphery (metropole). The main difference between these two concepts is that capitalism in the core developed from the advancement of the domestic market forces while the capitalism in the periphery was introduced from elsewhere. As such whereas capitalism in the core tends to be exclusive, the contrary is the case in the periphery. For Amin, the grand imperial design of the global metropole is the perpetuation and expansion of capitalist relations abroad by force or without the spontaneous consent of the affected people. The outcome of this process for Amin is that economies in the global periphery are distorted and disarticulated while experiencing several modes of production. This situation frustrates the growth of peripheral economies thereby making underdevelopment a permanent factor.

Amin observed that whereas capitalism in the core is characterised by clear polarisation of classes between bourgeoisie and proletariat, the contrary is the case in the periphery. Concisely, the social structure in the

periphery is a truncated structure that can only be understood in relation to the world social structure. The truncation of the social structure in the periphery is caused by the phenomenon of absentee metropolitan bourgeois class who perpetrate the exploitation of the periphery from the developed countries. Whereas the productivity of labour and wages are high in the core capitalist countries, there exist low wage and productivity in the periphery. (Ghosh, 2001: 59)

Amin further contend that the core capitalist states are characterized by autocentric accumulation, that is, accumulation without external expansion of the system. For him, such pattern of capital accumulation is not possible in the periphery since the peripheral economy exist only as an appendage of the central economy. In addition, peripheral economy also lacks the class of metropolitan bourgeois whose capital operates as the critical dominating force. For Amin, an autocentric society has in place, organic relation between the bourgeoisie and proletariats. Such economy is self-sufficient and independent, but peripheral economy is extraverted.

It is the position of Amin that classification of underdeveloped countries is superficial because such typologies concentrate on appearances, which mask the underlying unity of the phenomenon of underdevelopment. He likened the underdeveloped countries as a piece of a single machine, which is the global capitalist economy. Furthermore, while countries in the global periphery lack internal dynamism, the core capitalist countries exhibit internal dynamics that are indigenous to them.

All peripheral economies in the views of Amin have the following features:

- i. The predominance of agrarian capitalism
- ii. A local, mainly merchant, bourgeoisie that is dominated by foreign capital
- iii. The growth of large bureaucracy which substitutes for the leadership of an urban bourgeoisie, and
- iv. Incomplete polarisation, which takes the form of masses of poor peasants, urban unemployed people and many marginal workers, who have not developed completely into a proletarian class.

The consequence of these features is that the peripheral economies experience extraverted form of development of local capitalism. Since these economies cannot achieve development on their own momentum, they remain reduced to incomplete and extraverted development of local capitalism. In addition, the core capitalism also imposes an unequal exchange between it and the periphery in which the periphery is exploited through trade. This leads to distortion and disarticulation of the peripheral economies, which experience unevenness of development. The pursuit of development in the peripheries naturally propels these countries to incur

foreign debts from the core capitalist countries. This results in debt trap for the LDCs.

The peripheral economies are characterised by pre-capitalist mode of production, cheap labour, low technology and low productivity. It experiences alien imposed form of capitalism facilitated by the introduction of foreign capital. These economies are further characterised by the introduction of three forms of distortions:

- i. There is distortion towards export activities (extraversion).
- ii. There is abnormal enlargement (hypertrophy) of the tertiary sector.
- iii. There is distortion towards light branches of activities (light industries) and the use of modern production technique.

The distortion or hypertrophy of the tertiary sector reveals the difficulty of realising surplus value at the centre and limitation of peripheral development – high rate of unemployment and inadequate industrialisation. The second type of hypertrophy is expressed in excessive rise in government expenditure and a crisis in public finance. Amin maintains that the underdevelopment is not manifested in particular levels of per capita production, but in certain special structural features and the economies of LDCs are receptive to these structural features. Some of these features include extreme unevenness in the distribution of income and in the system of prices transmitted from the centre, disarticulation and economic domination of the centre.

Economic growth in the periphery is blocked because the centre dominates such countries. Whatever capital is generated in the periphery is never allowed to accumulate. Rather, they are siphoned out to the metropole. The periphery consequently experience incongruities and discontinuity in development. This is worsened by the double crisis of external payment and of public finance. Such crisis is inevitable and frequent in the LDCs.

In his book, *Imperialism and Unequal Development*, Amin (1977) identified two aspects of the theory of unequal exchange, which include:

- i. The pre-eminence of world values, and
- ii. The universal character of capitalist commodity alienation based on the direct or indirect sale of labour power.

In the global capitalist system, the transfer of international values into international prices implies the transfer of value from some nations to others. Since all products are international commodities, the same quantity of labour used up in different parts of the world will also give rise to a single world value. As such, if the labour hour in all countries creates the same value, while the labour power in one of the countries has

a lower value (lower real wages), the rate of surplus value is necessarily higher. For him, the generation of surplus value is higher in the periphery.

The real case of unequal exchange in the views of Amin will be present if the rates of surplus values are different in different countries, and the transfer of values takes place not because of different organic composition of capital but because of the immobility of labour. It is the immobility of labour that is responsible for the variation in real wages in different countries. He further maintains that the pre-eminence of world values is overshadowed by the appearance of non-capitalist mode of production. However, it is the pre-eminence of world value that constitutes the essence of the unity of the world system.

In his analysis of unequal exchange, Amin insists that it implies the exchange of products whose production involves wage differentials greater than those of productivity. The lack of internal correspondence at the periphery between the level of development of the productive forces and the value of the labour power generates the vicious circle of peripheral development. Amin's doctrine of unequal exchange rejects two significant myths. First, that development can be achieved by an artificial increase of the independent variable (wage). He maintains that international capital certainly finds it profitable at the periphery because the rate of surplus value is higher there. He further noted that the mode of production in the periphery reproduces itself in both economic terms (distortion) and political terms (specific class alliances). The second myth, which Amin sought to debunk, was that the proletariat at the centre benefits from unequal exchange through international transfers. Rather, he contended that higher wages at the centre result mainly from the high level of development of productive forces, which generates higher productivity, and not due to international transfers.

There exist indications that Amin's thesis contains three different theories that seek to explain the phenomenon of underdevelopment. These theories focus on primitive accumulation, which to him implies the transfer of surplus, international specialization and inequalities in wage levels between different countries. Amin insists that the rise of monopolies at the end of the nineteenth century created conditions for wages in the centre to rise together with productivity while wages in the periphery remained low. Prior to this time, exchange was equal as products were exchanged for the values. Afterwards, unequal exchange emerged because of the discrepancies in the wage level. From this, he argued that since primitive accumulation through unequal exchange constitutes a cause of underdevelopment, it is ultimately the result of the difference in the behaviour of wages between the centre and the periphery.

Amin identifies three factors, which accounts for the diversity of peripheral economies. These are as follows:

- i. The structure of the pre-capitalist formation at the moment of its integration into the world market;
- ii. The economic forms of international contact; and
- iii. The political form, which accompanied the integration.

It is the views of Amin that the supposed diversity among the peripheral economies is superficial and at best only disguises the essential unity.

He maintained that the core capitalism penetrates the periphery and creates three types of distortion:

- i. It gives more attention to export activities and extra-version of the economy. The export activities dislocate the internal production structure.
- ii. The penetration of central capitalism into the periphery alters the techniques of production in such a way that light industries are encouraged and technology transfer by the central capitalism go on rampantly resulting in technology dependence.
- iii. The penetration of capitalism into the periphery also distorts the tertiary sector in such a way that it becomes disproportionately larger as compared to the other sectors of the economy. The consequence is that many people in this sector are absorbed with low level of productivity and income. The tertiary sector becomes characterised by low productivity, low income, unemployment, and underemployment.

The quest to eliminate the distortions compels the LDCs to incur huge debts from, and participate in unequal exchange with the centre. These realities create room for siphoning of huge surplus from the periphery to the core. The inevitable consequence becomes the underdevelopment of the periphery. It is the position of Amin that once the periphery is put in a position of underdevelopment, it becomes dependent on the central capitalism, and this process continues. He noted that the LDCs have not evolved freedom of manoeuvres in relation to world capitalism. They remain helpless so long as they remain integral part of the global capitalist system with no possibility of local accumulation. By implication, the periphery will always experience the business fluctuations of the core if its position of global capitalism is not challenged. Consequently, underdevelopment in the periphery proceeds with every economic growth in the periphery. He maintains that autonomous and self-sustained growth in the periphery is impossible irrespective of the level of per capital output.

The solution as advocated by Samir Amin is to have a complete break with the world capitalist system, as this will create the conditions for

genuine development. He maintained that since development is hampered by the outflow of surplus from the periphery. It is his view that if certain steps are taken, economic growth may occur but not economic development because development is structural in nature. Development is possible when the tie with the centre is severed. He shares the views that social surplus is vital to the LDCs as it offer opportunity for autocentric accumulation. It is a better alternative than a comprador operated or peripheral capitalism.

Samir Amin's thesis has attracted some criticisms. He has been accused of superficial analysis of dependency, which fails to integrate the transformation of class structures and the changing nature of capital accumulation process. Furthermore, he is accused of exhibiting a unitary vision of development, which is considered ahistorical and fails to take account of the historical specificities of the experiences of the LDCs.

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. One fundamental assumption intrinsic in Amin thesis on unequal development is that ____ is compelled to spread capitalism on the global arena.*
 - A. Nationalism*
 - B. Neo – colonialism*
 - C. Neo – classicalism*
 - D. Imperialism*
- 2. The peripheral economies are characterised by all the following , except ____*
 - A. Pre – capitalist mode of production*
 - B. Cheap labour*
 - C. High technology*
 - D. Low productivity.*
- 3. Which of the following is the solution advocated by Samir Amin for less developed countries?*
 - A. A complete break with the world capitalist system*
 - B. Proper understanding of the capitalist system*
 - C. Adequate integration into world capitalism*
 - D. Adoption of communist ideology*



4.6 Summary

In summary, Frank's analysis reveal that underdevelopment is not an inherent defect of a country but a product of colonialism, which facilitated the forceful integration of the global satellite into the asymmetrical relationships of dependency and underdevelopment. By implication, capitalism has spread in the periphery and has created a chain of exploitative metropole-satellite relationship, which has worked against the interest of the satellites. Consequently, economic development only takes place when the ties between the metropole and satellites are weakest. Also, Samir Amin used the overproduction-under consumption hypothesis to demonstrate the contradiction of capitalism prior to the advent of imperialism. Consequently, he argued that imperialism, which was a necessary prescription to address the maladies of capitalism, was instrumental to the development of underdevelopment in the peripheries of global capitalism. Amin shared the view that socialism provides an avenue for the development of the peripheries.



4.7 References/Further Reading

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3.8 Possible Answers to Self – Assessment Exercises (SAEs)

Answer to SAEs 1

1. B
2. B
3. D

Answer to SAEs 2

1. C
2. A
3. D

Answer to SAEs 3

1. D
2. C
3. A

MODULE 5 OTHER THEORIES OF POLITICAL ECONOMY

Unit 1	Economic Approaches to Politics
Unit 2	Power-Centered Approaches to Political Economy
Unit 3	State-Centered Approaches to Political Economy
Unit 4	Justice-Centered Theories

Unit 1 Economic Approaches to Politics

Unit Structure

- 1.1 Introduction
- 1.2 Learning Outcomes
- 1.3 Economic Approaches to Politics
- 1.4 Summary
- 1.5 References/Further Readings/Web Sources
- 1.6 Possible Answers to Self-Assessment Exercises



1.1 Introduction

This unit examines the economic approaches to politics. What informs the decision, action, and reaction of the political actors? Political resources are in limited supply. So, individuals have to make choices that will be economically relevant and beneficial. Economics as a field of study has evolved as a distinctive method based on the adaptation of scarce resources to competing ends. When applied to politics, the central assumption of the economic approach is that private and public decision makers can be described in the same way. Both have goals and limited resources and pursue their goals according to a rational, self-interested calculus. This brings to the fore the rational choice theory as a critical aspect of the economic approaches to politics.



1.2 Learning Outcomes

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

- Identify the economic approaches to politics,
- Explain the economic approaches to politics, and
- Apply the ideas presented by the economic approaches to politics in analysing political realities.



1.3 Economic Approaches to Politics

As a field of study, economics has evolved a distinctive method based on the adaptation of scarce resources to competing ends. When applied to politics, the central assumption of the economic approach is that private and public decision makers can be described in the same way. Both have goals and limited resources and pursue their goals according to a rational, self-interested calculus.

In this approach, voters are consumers choosing among different candidates and policies; politicians maximize the interests of their organizations (parties) by pursuing median voters; bureaucrats are agents whose objective functions include budget maximization, expansion or protection of personnel, and discretionary behaviour. Laws are rule-like structures that affect how individual goals may be pursued as well as products of self-interested calculations themselves. As developed in economics, the overall approach is demand driven, with consumers pursuing their political goals and politicians passively supplying public goods (Buchanan, 1979: 177). Models developed by political scientists (such as Levi, 1988) have allowed for a distinctive set of goals on the part of the state agents.

The economic approach to politics has forced analysts to disaggregate the state and to focus on its numerous constituent components and processes. Echoing Bentley, we might say that there is no need at all for the state as an entity. Once we have specified the relevant agents, resources, goals and rules, politics is the analysis of choice in political settings, often concerning public goods.

While focusing on particular political actors in various strategic settings is valuable, the approach does have limitations. We focus on three.

First, there is the issue of whether politics, specifically democratic politics, is better described by the ends pursued by citizens or by the modes of activity in which citizens participate. To the extent that politics can be represented by agents who have goals that can be satisfied by choosing among alternative actions, the economic approach to politics makes sense. But suppose there is something valuable about the process itself. Suppose that people do not so much "use" politics to satisfy ends as to express themselves through political institutions. What if part of the point of participation is simply to participate, rather than to secure the ends to which participation might lead?

Disagreement over the relevance of the economic approach to politics may turn in part on disagreement about the nature of politics. If politics

refers to goal seeking in political environments, then the approach is clearly relevant. However, an alternative conception exists that identifies politics with processes through which individuals discover themselves, learn about their preferences, engage in debate, and shape (and are shaped by) opinions of others. The process itself (the democratic political process) shapes citizens' beliefs, especially about how they fit into a society with other individuals, and thus modifies what they might want as private agents.

A limitation of the economic approach is that it misses the transformative potential of politics. Politics is not just a process by which predetermined and unquestioned preferences are converted into policy "outputs." Individuals do not simply act on given preferences throughout the political process. As Barber (1988:199) puts it, the journey from private opinion to political judgment does not follow a road from prejudice to true knowledge; it proceeds from solitude to sociability. To travel this road, the citizen must put her private views to a test that is anything but epistemological: she must debate them with her fellow citizens, run them through the courts, offer them as a program for a political party, try these out in the press, reformulate them as a legislative initiative, experiment with them in local, state, and federal forums, and, in every other way possible, subject them to the civic scrutiny and public activity of the community to which she belongs.

The second limitation of the economic approach to politics concerns its effort to explain institutions and institutional change. We noted two different ways in which institutions can figure in economic analysis. Institutions can be taken as given (much as preferences and endowments can) and the consequences of different institutional arrangements explored. Alternatively, institutions can be treated as phenomena to be explained. The former approach "merely" specifies what has always been implicit in the neoclassical model.

The task is to elaborate the comparative incentive structure of various institutional arrangements and to assess the consequences for allocative behaviour. The latter approach is more ambitious in that it attempts to derive institutional changes from a model of intentional action. Were this effort to be successful, the claim that economics rests (and must rest) on a noneconomic bottom would be challenged (Field, 1979; 1984).

Institutions, or rules, refer to noneconomic phenomena that affect allocative behaviour, yet cannot be (or at least have not yet been) explained by that behaviour. According to this view, institutions, while ultimately changeable, confront choosing agents as historical givens, as part of the architecture defining the choice situation rather than as something to be chosen.

If institutions become the object of explanation, can the economic model logically account for them without a prior (different) specification of institutions? Neoclassical economics sees institutions largely as rules. Interpreted in this way, institutions prescribe, rule out, and permit. As such, they are relevant for the feasible set of actions, those that are possible. Thus they are relevant for explaining choice behaviour, including the choice of institutions.

Without an antecedent specification of rules, an explanation of consequent rules would seem impossible. This is not an argument against attempting to explain institutions with the economic model, but it does suggest that the attempt can work only to the extent that it relies on prior exogenously given rules. As Field puts it, "they [rules] cannot, or at least all of them cannot, be thought of as arising as the result of previous plays of the game in which they did not prevail" (1984:684).

A third limitation of the economic approach to politics concerns institutions and preferences. If institutions, including political institutions, serve merely to facilitate (efficiency in) want satisfaction, how do wants arise? What part can our social lives play in the formation and not just satisfaction of wants? With the extension of self-interest calculation to the design of institutions, we lose any sense of an enduring social world within which persons find themselves, discover their identity, their sense of self, and the wants appropriate to that sense of self.

Institutions, in part, make up that enduring social world. Our institutions allow for a frame of reference that is not contingent on exogenous preferences. If institutions are to take on this role, self-interest cannot be exogenous to them, or at least not to all of them. At a minimum, this suggests a division between those institutions aimed at serving self-interest, and thus for which exogeneity might be a reasonable assumption, and those institutions that participate in the formation of interests, for which the exogeneity assumption is inappropriate. To the extent that political institutions fall into the second class, political economy might concern itself with clarifying the necessary distinction.

Even on the basis of an appropriate distinction between the two kinds of institutions, however, problems arise for the rational choice approach. That approach is specially tailored to address the relation of pursuit of self-interest to collective outcomes. It takes for granted the motivation implied in the notion of self-interest. Adherents of this approach often write as though their conclusions follow so long as we accept the primacy of self-interest and rational calculation (that is, instrumentally rational calculation) in individual motivation and behaviour. But this is not so clear as it seems.

By accepting pursuit of self-interest as a goal in exchange (and to a lesser extent in government) we do not thereby accept the way of thinking about self-interest and rationality typical of the rational choice framework. Self-interest is not, after all, such a simple matter (see Kohut, 1977). In order to be an agent and make choices, the individual must have a cohesive self to which to refer and out of which to define his or her ends. Furthermore, the nature of that self will determine the nature of the choosing undertaken by the agent, for example whether or not it can meaningfully entail ranking of alternatives into a preference ordering. Before we too easily assume that choice and rationality are about ranking and preference, we need to look more deeply into the nature of agency itself and into the qualities that make an agent capable of choosing.

It is worth noting in this connection that the classical approach sidesteps the problems of agency and choice by focusing on pursuit of profit rather than utility maximization. This focus arises from the fact that the classical theory is primarily a theory of the growth of wealth and not of its static allocation. The classical economists do not much concern themselves with consumer choice and devote themselves instead to the implications of profit seeking for the growth of wealth. In so doing, they give less attention than they might to the role of demand in the functioning of market economy, but they also avoid the dangers of interpreting the world in terms of scarcity and rational choice.

When we make political institutions derivative of self-interest, we in effect make the self an irreducible prior condition of social interaction, and this makes it difficult to consider analytically the social determinants and institutional framework of self-interest. This observation has a bearing on one of our central themes: the link between political economy and the depoliticisation of society, the displacement of politics by civil society. A claim that we consider the necessary part played by political institutions in establishing an enduring framework for want formation could place limits on the erosion of the state associated with the traditional project of political 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. *The extent that politics can be represented by agents who have goals that can be satisfied by choosing among alternative actions, the ____ to politics makes sense*
 - A. *Rational Choice Approach*
 - B. *Elite Choice*
 - C. *Democratic Approach*
 - D. *Economic approach*

2. *What did the economic approaches to politics bring into the political domain?*
 - A. *Rational self – interest*
 - B. *Governing class consciousness*
 - C. *Political education during elections*
 - D. *Political inducement for electoral gains*
3. *A limitation of the economic approach is that it misses the ____ potential of politics.*
 - A. *Oppressive*
 - B. *Economic*
 - C. *Transformative*
 - D. *Interrelated*



1.4 Summary

Economic Approaches to Politics," considers an extension of neoclassical ideas, particularly rational self-interest, into the political domain. Individuals are seen as goal-seeking and choosing creatures operating in different environments. When the goods in question are public and the rules are provided by political institutions, the arena is by definition political. Joining the tools of rational choice analysis with individual behaviour within political settings provides one version of political economy. The method is economic. The field of activity - the arena - is political.

The economic approach to politics culminates a methodological principle embodied in neoclassical economics. The idea of rational self-interest becomes focal and is harnessed to the analysis of politics. The neoclassical approach and its offshoots attempt to alter our way of understanding economics and politics. Neoclassical political economy, with its focus on the state's role in market failure, offers a way to complete the liberal project in one direction. To the extent that markets do not foster the satisfaction of private wants, the state enters. The role of the state is derivative. Its scope and content depend on the efficacy of market behaviour.

What is economic in neoclassical political economy is the market, or more precisely, voluntary exchange within market settings. What is economic in the economic approach is rationality. The political content in both cases is supplied by a particular arena, institutional setting, or way of organizing - by the state or public organization (rather than by the market and private exchange). Politics and economics do not refer to qualitatively different

objects. Instead they reflect comparative institutional specializations in markets and states and methods and subject matters.



1.5 References/Further Reading

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Levi, M. (1988). *Of Rule and Revenue*. Berkeley: University of California Press.



1.6. Possible Answers to Self – Assessment Exercises (SAEs)

Answer to SAEs 1

1. D
2. A
3. C

Unit 2 Power-Centered Approaches to Political Economy

Unit Structure

- 2.1. Introduction
- 2.2. Learning Outcomes
- 2.3. Power-Centered Approaches to Political Economy
- 2.4. Summary
- 2.5. References/Further Readings



2.1 Introduction

This unit undertakes a comprehensive study of the power – centred approaches in political economy. It appraises the danger of putting power at the centre as espoused by both the Marxian and non – Marxian schools of thought. In fact, power can exist without been necessarily linked to politics. Those who exercise power beside the state often do so in defence of their personal interest.



2.2 Learning Outcomes

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

- Discuss the power – centred approaches to the study of political economy.
- Analyse the reason why individuals exercise power in the society.



2.3. Power-Centered Approaches to Political Economy

In his review of *The New Palgrave: A Dictionary of Economics*, Robert Heilbroner notes a striking fact: In a collection that runs over 4,000 pages and has 2,000 entries, there is no entry for "power" (Heilbroner, 1988:23). We have noted some of the sources of resistance to power by neoclassical economics. Important segments of Marxian political economy also resist placing power at the centre, displacing the concept of class. Resnick and Wolff take pains to distance themselves from Marxian and non-Marxian formulations that try to make power central "by counterposing power as the alternative essence of social structure and development ..." (1987:334).

Yet the appeal of building political economy on a foundation of power and wealth is strong. How can these two phenomena not be related, the naive realist might ask. While acknowledging this appeal, a good part of this unit examined the difficulties of melding power and some central economic concepts. From our standpoint, there are two separate difficulties of placing political economy on a foundation of power (Caporaso and Levine, 2005).

The first problem is whether power by itself is enough to supply the (or "a") content for politics. Suppose that our subject matter permits power actions (that is, suppose such actions are not prevented by markets). Does the existence of power by itself identify our subject matter as political? Our answer to this question is "generally no." Power may exist within the firm, between firms, within the family, school, and religious groups. While power actions in these settings may have some political content, they are not intrinsically political. Politics is not identical to all relations of power and domination. So power can exist without definitional entailing politics (Caporaso and Levine, 2005).

Those (other than the state) who exercise power within the economy do so in the pursuit of their private interests. This need not (directly) involve a political struggle over the instruments and institutions of power (government). If not, then power-centred approaches to political economy have to do with politics only in a very limited sense of the word. Unlike the other approaches to political economy, power-centred approaches do not focus on the relation between private interests and public decision making. This sets the power-centred approaches apart. The second problem with integrating power and economics concerns the capacity for activating a discussion of power within the terms provided by neoclassical economics. We started on a note that questioned the possibility of power relations within markets. We should be clear that rational choice, maximization of utilities, and exchange theory - all central to neoclassical economics- do not provide obstacles. In exercising or attempting to exercise power, people can be thought of as having goals, pursuing them in a cost sensitive way, and employing threats and inducements in doing so (the latter typifying negative and positive exchange). We are not arguing that power is irrational or that its exercise takes us out of the realm of intentional behaviour (Caporaso and Levine, 2005).

The obstacles presented by neoclassical economics centre on the voluntary nature of exchange and the focus on efficiency. These two concepts go together and make power analysis difficult. If exchanges are voluntary, agents enter into them "of their own free will." This in turn implies that no one expects to be worse off after the exchange. The exchange situation may have been "set up" (with choices and payoffs manipulated), or the options and constraints may be unequal, or both, but

no matter. These factors are treated as parameters, as unanalyzed givens. If this accurately describes economic choice, power in the sense of "power over" is impossible to wield.

While the term "voluntary" applies to individual motivations for exchange, in neoclassical theory, efficiency applies to overall allocation. Neoclassical economists ask, given a set of agents, their preferences, endowments, and the technology available, if there are any further exchanges that will improve some (at least one) without making anyone worse off. The set of exchanges that satisfy these criteria are called Pareto-improving exchanges. They enhance efficiency. There are of course other possible exchanges, such as those that make some better off at the expense of others and some that might make both or all parties worse off (Caporaso and Levine, 2005).

The idea of efficiency ties economics to the first set of exchanges, those that improve the lot of some without damaging others. This deprives economics of one (some would say the crucial one) way of talking about power, namely the threat of imposing negative sanctions. This idea is rather central to politics and political science. Individuals pursue goals. Often these goals are in conflict. Sometimes agents pursue their goals "at the expense of" others; that is, they use power to threaten to make others worse off if they do not yield.

To the extent that neoclassical economics restricts its focus to efficient exchanges, it deprives itself of one way of talking about power. Other avenues are still open: the power to improve technology or the power to construct institutions within which agents can more efficiently pursue their preferences. Thus neoclassical economics retains the capacity to theorize about a substantial range of "power to" phenomena. However, it generally has not chosen to use the language of power. To the extent that neoclassical economics relinquishes its focus on efficiency, it opens itself up to "power over" thinking but ceases to become the science of allocative efficiency.

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. *Those (other than the state) who exercise power within the economy do so in the pursuit of their ____ interests.*
 - A. *General*
 - B. *Public*
 - C. *Private*
 - D. *Primordial*
2. *What does efficiency apply to in neoclassical theory?*
 - A. *Equity*
 - B. *Overall allocation*
 - C. *Public utility*
 - D. *Public – private partnership*
3. *To the extent that neoclassical economics restricts its focus to efficient exchanges, it enhances itself of one way of talking about power. (True/False)*



2.4 Summary

Power approaches see relations of power and domination in the market, between the market and the state, and within the state itself. Economic agents (firms, pressure groups) may exert their power (through votes or lobbying) over the political process or over other economic agents (other firms), or over consumers in imperfectly competitive markets.

In a broad view of power, power is nearly everywhere. The problem is not where to find it but what to ignore. How does one draw the boundary between the political and nonpolitical if power is always present? This problem is often solved in an ad hoc way by limiting the scope of power analysis to settings involving the state or processes intended to affect state policy.



2.5 References/Further Reading

Caporaso, A. J. and Levine, P. D. (2005). *Theories of Political Economy*. Cambridge, New York, Melbourne, Madrid, Cape Town, Singapore, Sao Paulo: Cambridge University Press.

Heilbroner, R. (1988). Economics without Power. *New York Review of Books*, 35, no. 3 (March): 23-5.

Resnick, S. A. & Wolff, R. D. (1987). *Knowledge and Class*. Chicago: University of Chicago Press.



2.6 Possible Answers to Self – Assessment Exercises (SAEs)

Answer to SAEs 1

1. C
2. B
3. False

Unit 3 State-Centered Approaches to Political Economy

Unit Structure

- 1.1. Introduction
- 1.2. Learning Outcomes
- 1.3. State – Centered Approaches to Political Economy
 - 1.3.1. State Autonomy
 - 1.3.2. Utilitarian and Marxian Analysis of the State
 - 1.3.3. Statism
- 1.4. Summary
- 1.5. References/Further Readings/Web Sources
- 1.6. Possible Answers to Self-Assessment Exercises



3.1 Introduction

The Pre-capitalist class divided modes of production which comprises of both the slave owning and the feudal modes of production. The slave owning 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 owning 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.



3.2 Learning Outcomes

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

- Define the State – Centered Approaches to Political Economy
- Identify the types of State – Centered Approaches to Political Economy
- Discuss the weaknesses and strength of State – Centered Approaches to Political Economy
- Relate the State – Centered Approaches to Political Economy to the operation of modern economy.



3.3 State – Centered Approaches to Political Economy

We consider approaches to political economy centering on the idea of an active state whose agenda is not reducible to wants emerging within the private sphere. Those writers who have concerned themselves with interpreting relations between state and economy in this way often employ the term "state autonomy" to distinguish their approach. Broadly, the term state autonomy refers to the ability of the state to define and pursue an agenda not defined for it solely by private societal interests.

Some of the state – centred theories are;

1.3.1 State autonomy

At the bottom, the idea of state autonomy refers to a capacity of the state to act independently of social forces (particularly economic forces). This does not mean the society is irrelevant. It just means that an arrangement of social forces does not uniquely determine particular state actions. Marxists such as Poulantzas (1969, 1973) speak of the "relative autonomy" of the state. This view of Poulantzas was taken from the discussion of Marx and Engels in the 18th Brumaire of Louis Bonaparte (Peter, 2020; Peter and Ocheni, 2015). Pluralists at least theoretically allow for state autonomy when the "vector of group pressures" is unclear (that is, when the pressures generated by societal groups do not result in clear political demands). And of course state autonomy has been a central concern of statist theorists such as Krasner (1978) and Skocpol (1985). The predominant conception of state autonomy revolves around the idea of freedom from external (societal) causal influences.

The conception of autonomy as freedom from "external" influences has three corollary viewpoints according to Caporaso and Levine (2005:182-3) as follows;

1. It relates to a conception of the state "exerting leverage" or "winning out" over the pressures emanating from society. The basic idea is that state leaders have their own ends and societal interest groups have theirs. In the political battle that ensues, state leaders resist pressures from private interests and translate their will into public policy.
2. It refers to state action not dictated or controlled by any one group or coalition of groups. Here it is not so much that the state is opposed to economic interests as that no clear reading of those interests is forthcoming. This is the "balance of opposing class forces" of which some Marxists speak, or the theoretical possibility that "the vector of group forces is zero" in pluralist theory. In either case the basic point is the same: The state acts because the private sector as a whole does not; that is, there is a failure to formulate a "social will." In public choice theory this condition (inability to identify a societal preference) is taken to be quite general, placing the state in democratic societies in a difficult position.
3. It turns on the capacity of the state to resist pressures and is very popular among those dealing with policymaking. This view of state autonomy is closely tied to the "strong state-weak state" literature. Strong states are those simultaneously capable of resisting pressures and generating public policy initiatives on their own. Weak states are those that "cave in" to pressures from economic interests.

1.3.2. Utilitarian and Marxian Analysis of the State

What important themes arise within the utilitarian and Marxian analyses of the state and its relation to society? One theme concerns the problem of social order. Societies (at least national societies) are composed of millions of individuals occupying countless roles, yet relating to one another in complex, coordinated (not to say harmonious) ways. If individual interests and goals are subjective and undetermined (as in utilitarian theory) or defined by forces which are conflictual (as in Marxian theory), how is social order possible? For utilitarian theory we can ask: Can society emerge as a result of the separate pursuit of socially undetermined goals? For Marxian theory we ask: Is a social order possible given the division of society into conflictual classes? The narrow treatment of interest as material (Marxian) or subjective (utilitarian) interest places limits on the development of a full theory of the state (Caporaso and Levine, 2005).

Both utilitarian and Marxian theories take note of this problem, but in different ways. Utilitarian theories recognize the necessity for consensus on the basic "rules of the game" or principles of social order as an underlying condition for allowing a clash of interests within the society. Since the state must take responsibility not only for assuring that these norms prevail but also for education in the norms, utilitarianism cannot rest with its own instrumental theory of the state since the purely instrumental state could never survive. Utilitarianism allows through the back door what it refuses to acknowledge as a legitimate analytical starting point. Marxian theory recognizes the same difficulty when it notes the inconsistency between the narrow material interests of the capitalists and the work that must be done by the state to maintain social order. In both cases, the concept of interest cannot support a theory of the state adequate to account for and maintain a society within which those narrow interests prevail (Caporaso and Levine, 2005).

3.3.3 Statism

Statist approaches go about the matter in a different way. These approaches are likely to begin with a state agenda not reducible to private interest and may go so far as to examine how state actors cultivate the very constituencies they are to serve.

However uncertain the rooting of the concept of national interest, it clearly suggests a ground for the distinction between the state and the economy. By definition the state pursues the national interest as its end, and only the state does so. The state defines and defends the national interest. The private sphere does not (Caporaso and Levine, 2005).

It is striking to discover that Krasner's statist approach does not allow the state-society opposition to parallel the public-private opposition. Of course, it should have been obvious from the outset that once we restrict the state to the executive and state department, much of government becomes part of the society. This would be less true if we widened the notion of national interest to include aspects of domestic policy. But, even if we do so, the problem remains: A significant part of government and of our "public" will be outside the state.

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 approaches to political economy that centre on the idea of an active state whose agenda is not reducible to wants emerging within the private sphere are called ____*
 - A. *Independent approaches*
 - B. *Political economy approaches*
 - C. *State – Centred approaches*
 - D. *Public – focused approaches*
2. *The idea of ____ refers to a capacity of the state to act independently of social forces (particularly economic forces).*
 - A. *State independence*
 - B. *State autonomy*
 - C. *Political neutrality*
 - D. *Political socialization*
3. *The state defines and defends the ____ interest.*
 - A. *Corporate*
 - B. *Political*
 - C. *Business*
 - D. *National*



3.4 Summary

State-centered approaches take political institutions, especially authoritative central political institutions, as pivotal in the definition of politics. Politics is what goes on within the state, or between the state and society. What kinds of political economy flow from this conception? There are numerous possibilities centering on interrelations between the state and the economy: regulation of the economy and economic actors, the effect of economic actors on state policy, distributional effects of policy on economic resources, and traditional macroeconomic policy along Keynesian lines. State-centered approaches need not treat politics as primary, or even autonomous. The focus on the state may be central at the same time that the causal forces driving state action are located in the society.



3.5. References/Further Reading

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3.6. Possible Answers to Self – Assessment Exercises (SAEs)

Answer to SAEs 1

1. C
2. B
3. D

Unit 4 Justice-Centered Theories

Unit Structure

- 1.1 Introduction
- 1.2 Learning Outcomes
- 1.3 Justice – Centred Approaches
 - 4.3.1. Social justice and Political Economy
- 1.4 Summary
- 1.5 References/Further Reading



4.1 Introduction

The concept of justice refers to social ordering principles we can use to define rights (including property rights) and the market system. These principles follow from an idea of personhood, especially of the integrity of persons. Justice-centered theories of political economy judge market institutions against the demands of personhood. But, these demands vary for differing conceptions. In particular, the demands of personhood vary with the concreteness and richness of the idea of the person advanced in the different justice-centered theories. Some theories define personhood at the most abstract level, virtually identifying it with the purely formal condition of legal personality. The person is the legally recognized locus of property ownership and capacity to contract. Other theories define personhood in more concrete terms, identifying the capacities that underlie legal personality with varying degrees of richness. This unit focuses on social justice and political economy. Students are encouraged to consult Caporaso and Levine (2005) for a comprehensive discussion of all the justice – centred approaches in political economy.



4.2 Learning Outcomes

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

- Define the justice – centred approaches to political economy
- Identify the central focus of the justice – centred approaches
- Explain the nexus between justice – centred and political economy.



4.3 Justice – Centred Approaches in Political Economy

4.3.1. Social justice and Political Economy

Utilitarian theories do not define the limits of the market according to a notion of individual integrity that transcends the logic of market relations. For utilitarian theories, the limits of the market are defined by the logic of the market. We only need have recourse to nonmarket relations when the market fails.

We can make this point in another way. For a utilitarian, the matter of the limits of the market is quantitative. If nonmarket allocation or regulation will lead to greater individual satisfaction, then nonmarket methods dominate. The line separating market from government does not distinguish between kinds of needs and what is appropriate to their satisfaction, but between degrees of want satisfaction.

Justice-centered thinking begins with a notion of individual integrity. This notion defines the purpose and limits of the market. It is not a matter of degree of satisfaction, but of what is required to protect and ensure the integrity of the individual. These requirements vary, as we have seen, for the different justice-centered approaches. But, in each case, they determine the meaning and limits of the market.

In justice-centered approaches, the conception of the person is most important. The more abstract that conception, as in the libertarian approach, the wider the scope of the market. Indeed, in the libertarian approach, the scope of the market is generally wider than it would be for a utilitarian. The more concretely defined the concept of the person, the more circumscribed the domain of the market.

In each case, however, the market has a domain of its own defined by the requirements of personal integrity satisfied by market relations. This means that justice-centered approaches distinguish between domains of social life according to (1) the mode of interrelatedness characteristic of each, and (2) the requirement of personhood linked to that mode of relating. Hegel refers to these as "moments" of the conception of ethical order.

Thinking this way has important implications for the relation of politics to economics. First, it protects the market from the kinds of incursion of politics suggested by reference to merger of the political and economic, or the economy as a political system. Justice-centered approaches insist on the integrity and separability of the economy.

Second, thinking in terms of spheres or domains defined qualitatively rather than in terms of market failure prevents economic reasoning, or the logic typical of the market, from dominating in nonmarket relations. The latter also have their own integrity linked to a qualitatively distinct social purpose. Politics, then, is not the pursuit of economic efficiency by other means; it is the pursuit of ends distinctly relevant to the political process.

For this to make sense, persons must have different kinds of ends; or, more accurately, they must have the need to enter into different kinds of relationships that characterize different social domains. Pursuit of the largest available measure of satisfaction does not characterize all that we do (it can also be debated whether it characterizes anything we do, of course). Justice – centered approaches focus our attention on the differences in kind among our human ends, and on the differences in kind among the processes and relationships by which we pursue those ends. In doing so, it makes it possible to consider those relations and processes ends in themselves (for detail discussion of the justice – centred approaches, see Caporaso and Levine, 2005).

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 concept of __ refers to social ordering principles we can use to define rights (including property rights) and the market system.*
 - A. *Equality*
 - B. *Freedom*
 - C. *Anomie*
 - D. *Justice*
2. *Which of the following is the most important in justice-centered approaches?*
 - A. *The conception of the person*
 - B. *The power of individual choice*
 - C. *The power of the state*
 - D. *Rational choice conception*
3. *Which of the following plays an important role in establishing justice and determining the boundaries of the political and economic?*
 - A. *The church*
 - B. *The parliament*
 - C. *The state*
 - D. *The judiciary*



4.4 Summary

The justice-centred approach goes the furthest in turning the tables on economy-centred approaches. The starting point is justice and rights rather than self-seeking and efficiency. Justice does not emerge out of the "natural" self-seeking forces within society. The state plays an important role in establishing justice and determining the boundaries of the political and economic. If the economic realm is identified with self-seeking, with what can be freely traded by economic agents, rights and obligations impose limits to the scope of free exchange. Thus the very act of determining what is political and what is economic is political. This approach shifts our attention away from political economy defined as interaction between politics and economics toward political economy as the political processes shaping the proper scope of economic action.



3.5 Reference/Further Reading

Caporaso, A. J. and Levine, P. D. (2005). *Theories of Political Economy*. Cambridge, New York, Melbourne, Madrid, Cape Town, Singapore, Sao Paulo: Cambridge University Press.



4.6. Possible Answers to Self – Assessment Exercises (SAEs)

Answer to SAEs 1

1. D
2. A
3. C