

Principles of political economy



Understanding Problem of the nations

Rank	Country/Region	GDP (Millions of US\$) 2014-15
	<u>World</u>	77,868,768
1	<u>United States</u>	17,419,000
2	<u>China</u>	10,360,105
3	<u>Japan</u>	4,601,461
4	<u>Germany</u>	3,852,556
5	<u>United Kingdom</u>	2,941,886
6	<u>France</u>	2,829,192
7	<u>Brazil</u>	2,346,118
8	<u>Italy</u>	2,144,338
9	<u>India</u>	2,066,902
10	<u>Russia</u>	1,860,598

Rank	Country	Int\$	Year
1	<u>Qatar</u>	140,649	2014
—	<u>Macau</u>	139,767	2014
2	<u>Luxembourg</u>	97,662	2014
3	<u>Singapore</u>	82,763	2014
4	<u>Kuwait</u>	73,246	2014
5	<u>Brunei</u>	71,185	2014
6	<u>United Arab Emirates</u>	67,674	2014
7	<u>Norway</u>	64,856	2014
8	<u>Switzerland</u>	57,235	2014
9	<u>United States</u>	54,629	2014
10	<u>Saudi Arabia</u>	51,924	2014

Problem of the nations and understanding

Rank	Country	Happiness	Change 2012-14
1	Switzerland	7.587	-0.233
2	Iceland	7.561	0.263
3	Denmark	7.527	0.303
4	Norway	7.522	0.054
5	Brazil	7.427	0.171
6	Finland	7.406	0.032
7	Netherlands	7.389	-0.283
8	Sweden	7.378	0.247
9	New Zealand	7.364	N/A
10	Australia	7.35	0.04

Rank	Country	HDI 2015
1	<u>Norway</u>	0.944
2	<u>Australia</u>	0.935
3	<u>Switzerland</u>	0.93
4	<u>Denmark</u>	0.923
5	<u>Netherlands</u>	0.922
6	<u>Germany</u>	0.916
6	<u>Ireland</u>	0.916
8	<u>United States</u>	0.915
9	<u>Canada</u>	0.913
10	<u>New Zealand</u>	0.913

Some political, socio-economic issues of the nations

- No country among first six countries those have been noted for highest PCI and could not take place in HDI ranking and Happiness index ranking
- India is one of the biggest economy of the world but has not taken place in either HDI ranking or Happiness ranking.
- First six countries (most of them Islamic countries & monarchies) could not get any position among HDI and Happiness ranking.
- Now the question is that what are the reasons for backwardness of higher PCI countries in HDI ranking?
- Economics is the science of resource management of a family or household
- Polis for State or the polity of the State; Oikos for household, nomos for law
- Polity is the science of administration or management of people of a Country
- Hence, the political economy is the science of households and resource management by the State (Francis Hutcheson and Adam Smith)
- The dictionary of modern economics defined as “The theory and practice of economic affairs of a State”.

Definitions for Political economy

- Political economy as study of the ‘social relations, particularly the power relations, that mutually constitute the production, consumption, distribution and exchange of resources’ (Chicago and Center for study of public choice).
- Political economy is the study of “Control and Survival in social life”.
- Political economy has traditionally given priority to understanding ‘social change and historical transformation’ (Classical view).
- The objective is to identify both cyclical patterns of short-term expansion and contraction as well as long-term transformative pattern that signal fundamental changes in the system.
- Political economy is a “positive science”
 - Individual economic agent behaviour (choice and preference by self-interest)
 - Public rational choice and decisions (choice and preference by groups)
 - Power based analysis of the state and development policies
 - Cultural and moral principles of the economy
 - Historical perspective of development of the society
 - Structural and institutional perspective

Nature of the Political economy

- Political economy is a “Normative Science”
 - Efficiency of factors of production and productivity
 - Market (failure) and State (failure)
 - Economics, Externalities and Institutions
 - Distributive Justice (concerns the nature of a socially just allocation of goods in a society)
 - Constitutional political economy (systematic study of institutions requires consideration of economic, political, legal, and philosophical motivations, rules, and effects)
 - Building alternative Economic principles for the social welfare
- The importance of historical perspective in understanding the political economy has captured by Canadian Political Economist Wallace, “It is fundamentally historical and dynamic in the sense of understanding of the social transformation, including the agents and forces of change”.
- According to public choice theory, Political economy is the study of the rules governing the connection between individuals and institutions. Such rules are constituted, contend by the rational, self-oriented maximiser of contemporary economic theory. Hence, the entire social arena is the field of political economy - Brennan and Buchanan

Methods to understand the political economy

- **Inductive and Deductive methods of reasoning**

- Induction “is the process of reasoning from a part to the whole, from particulars to generals or from the individual to the universal.” Bacon described it as “an ascending process” in which facts are collected, arranged and then general conclusions are drawn. The inductive method was employed in economics by the German Historical School.
- Deduction “is the process of reasoning for a part from the whole, from generals to particulars or from the universal to the individual.

- **A positivist Empiricist research paradigm**

- The positivist paradigm of exploring social reality is based on the philosophical ideas of the French philosopher August Comte, who emphasized observation and reason as means of understanding human behaviour. According to him, true knowledge is based on experience of sense and can be obtained by observation and experiment. Positivistic thinkers adopt his scientific method as a means of knowledge generation

Prescribed syllabus

- **Unit-1:** Systems of economies – Origin and purpose of the political economy – methodology – different concepts of wealth – the surplus approach – tableau economique of François Quesnay
- **Unit-2:** Adam Smith's growth propositions – Division of labour and aggregate demand – concept of invisible hand – distribution and value in Smith
- **Unit-3:** Ricardo on distribution and value – rent – intensive and extensive margins – theory of wage – relation between wage and profits – reconstruction of political economy- Economic ideas of Sraffa
- **Unit-4:** Marx theory of labour and value – methodology – commodity fetishism – origin of surplus value – organic composition of capital – industrial reserve army

Origin of the political economy

- The economic interpretation of society and social change has started during the days of old testament, which contains wealth of considerations on different aspects of human life (12-9th century B.C.)
- In India Kautilya Arthashastra, dealing entirely with the functioning of the state in its economic aspects, belong to the 4th century B.C.
- In China the Confucius has discussed about economic issues of the State
- The Greek culture followed 'an administrative approach rather than market approach to analyze and understand economic issues.
- Most of the societal issues they have viewed into either political or social. Plato, who favoured collective ownership of means of production, collective organisation of consumption activities. Aristotle invoked realistic view of human interest over common property and individual property
- Plato identified the importance of intrinsic human nature for foundations of social stratification. Aristotle interpreted about intrinsic character of human for labour, master, slave, women, freeman. And divided the state into soldiers, peasants and philosophers.

Origin of the political economy

- Plat and Aristotle characterized social and political stratification as a fact of nature of the society and stemming from intrinsic differences among the members of the society.
- Patristic thought : Application of religious principles to interpret and administer the economic matters (Christian principles)
- The Scholastic thoughts: critical and rational analysis of economic issues and concepts based on the religious principles and norms and redefine in view of social transformation and distinguishing between roles of State and religion giving importance to the concept of State in the medieval period (started with Aristotle)
- Usury and Just Price: Aristotle argues that usury is unnatural and making benefit out of money. The Christian principles also states that but the Thomas Aquinas tried to recognize the usury as price for money for its inherent qualities of medium of exchange and measure value.
- The division of labour multiply the level of exchange of goods and services and prevail the need of price determination for goods for exchange in the absence of fraud and monopoly discrimination is called as 'Just Price' by Thomas Aquinas (1225-74)

Origin of the political economy

- Bullionists and Mercantilists: Basically erroneous notion of wealth- the so-called 'Chrysoedonistic view; namely the simplistic identification of wealth with gold and precious metals in general and named as Bullionists in 16th century
- Thomas mun (1571-1641)an English man and a managing director of the East Indian Company. His writings may be taken the reference point for the transition from bullionism to mercantilism. Trade became a central activity to increase the wealth of the nations and balance of trade become crucial to stabilize exchange rate of currencies and goods and services
- This theory recognized the role of state in growth of wealth of the economy through trade and it became dominant during 16th and 18th centuries till publishing of wealth of nations.
- Another salient feature of mercantilism was the 'fear of commodities' or, in parallel, the 'dearth of money' which were manifestations of a historical stage of transition between production for self-consumption in the feudal economy and production for market in capitalism
- The way to positive balance of payments, exporting manufactures for raw material, or luxury goods in exchange for subsistence or, products of skilled labour in exchange for unskilled labour.

Origin of the political economy

- Another interpretation of mercantilist idea was making 'profit upon alienation' raises from commerce or circulation process and through simply buying cheap and selling dear. Profit stem solely from exchange, one country will gain at cost of other but not balance with other economic activities.
- Political arithmetic and the method of economic science by William Petty: It was aimed to introduce the quantitative method into the analysis of social phenomena and it became alternative to mathematics for economic interpretation political and social issues
- Bacon proposed the inductive method, a fusion of empiricism and rationalism by opposing Aristotelian syllogistic-deductive method and Renaissance pure empiricism
- National State and economic system: Petty tried to transform the economy from feudalistic structure to capitalistic
- Petty proposed to decrease imports through substitution of domestically produced goods , satisfies domestic needs and employment.
- Commodity and market: Market is a place to determine the value of the commodity through exchange. Petty tried to provide a framework to regulate disturbance in deterring the price a commodity.

Origin of the political economy

- Standardization of every diversified quality like size, dimension, colour and quality of diamond to determine reasonable relative price of the commodity by the market with State regulation to avoid cheating from more knowledgeable person to less knowledgeable person in the exchange process.
- He states that basically, the price of commodity determine by the scarcity and cost of production