

ABSTRACT

This paper attempts to trace the historical development of the subject of political economy which is concerned with a complex interplay between forces of economics and politics and between states and markets. The paper discusses how economic theory has been used to develop and has influenced different social and economic systems such as capitalism, socialism and communism. A brief history of the emergence of different schools of economic thought, starting from the middle ages (roughly 1500 AD) and till the 21st Century has been shown here. The impact of globalization and free trade upon the world economy have been also analyzed and conflicting views of different schools of thought in the study of international political economy have been discussed.

History of Political Economy: The Study of Economy, State and Society

Introduction

Economy, State and society are interrelated. Political Economy, branch of Social science, that studies the relationship between individuals and society and between markets and state using a diverse set of tools and methods drawn largely from Economics, Political science and Sociology. Political economy studies how a country - the public's household – is managed or governed, taking into account both political and economic factors. The subject matter is concerned with the complex interplay between forces of economics and politics and between states and markets. It is the study and use of how economic theory and methods influence and develop different social and economic systems, such as capitalism, socialism and communism. It also analyzes how public policy is created and implemented. Since various individuals and groups have different interests in how a country or economy is to develop, political economy as a discipline is a complex field, covering a broad array of potentially competing interests. If we look into the historical development of the subject we find that Political Economy is a very old subject of intellectual inquiry but a relatively young academic discipline. 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 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 of the state in economic regulation. The writings of the Scottish economist Sir James Steuart, 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 of Louis XIV of France, epitomize Mercantilism in theory and in practice, respectively. Political economy emerged as a distinct field of study in the mid 18th Century, largely as a reaction to Mercantilism, when the Scottish philosopher Adam Smith (1723-90) and David Hume (1711-76) began to

approach this study in systematic terms. There are three main theories of political economy which are mercantilism, economic liberalism and marxism.

Mercantilism

It is a Medieval Economic Thought (1500 AD-1750 AD). Mercantilism Or Commercialism emerged as the sovereign state emerged in Modern Europe in the 16th and 17th Centuries. . The main premise of this theory is that the economy of the society should be subordinated to the cause of building a strong state. It is an economic system which developed during the decay of the feudal system (Feudalism) to unify and increase the power and especially the wealth of a nation by a strict governmental regulation of the entire national economy usually through policies designed to secure an accumulation of bullion, a favorable balance of trade, the development of agriculture and manufactures, and the establishment of foreign trading monopolies. Historically, such policies frequently lead to war and also motivate colonial expansion. Some economic, political, religious and cultural factors were responsible for the emergence of mercantilism.

Factors shaping Mercantilism

1. Economic Factors: We find that towards the end of the 15th century changes were taking place in the economic life of the people. Domestic economy was giving way to an exchange economy. Agriculture was giving place to industry. Trade became very important and it changed the foundation of socio-economic set-up of the middle ages. Trade necessitated the use of money which was available in the form of gold and silver. Along with the expansion of commerce there were improvements in transport, agriculture, population, etc., so the Mercantilist thought was the outcome of these developments.

2. Political Factors: Towards the end of the middle ages nationalism became the strong force. Europe changed greatly due to Renaissance. As a result, there was a fundamental political change. It resulted in the emergence of strong nations like England, France, Spain, etc., Feudalism came to an end and the King became more powerful. Each nation wanted to preserve its independence and considered other nations as enemies. In order to create a

strong and powerful state the Mercantilists tried to regulate the political and economic activities of the people.

3. Religious Factors: The Reformation Movement was revolt against Roman Catholic Church. It challenged the authority of Pope. Initially the Roman Catholic Church controlled the political and economic activities of the nation. But after the Reformation the authority of the Pope was challenged.

4. Cultural Factors: Culturally also Europe was undergoing a sharp change. Renaissance gave a new light of learning to the people. People were made to realize that this worldly life was more important than the heavenly life. As a result, money came to occupy an important place in human activities.

5. Scientific Factors: In the field of science and technology great improvements and inventions were made. The discoveries of compass and printing press were of great importance, with the help of compass navigation became easier and it led to the discovery of new countries. Thus new countries opened the gates to a variety of raw materials and markets. The invention of printing press helped the spread of new ideas and knowledge.

The mode of accumulation of wealth and mode of ensuring the prosperity and advancement of the economy differed from time to time. 16th Century Spain acquired its wealth from her colonies in Latin America through acquisition of silver and gold bullion. Netherlands mostly acquired its prosperity through overseas trade. Subsequently Great Britain acquired her prosperity through industrialization and industrial development. The main proponents of this theory were the first State Secretary of the Treasury of the United States of America Alexander Hamilton (1757-1804) and German economist Friedrich List (1789-1846). In recent times the Mercantilist theory has harped on the successful development of Japan and East Asian countries.

Economic Liberalism

This theory arose as a critique of mercantilism. According to it the economy should be completely left alone, freely to develop according to the free operations of the forces of

supply and demand. Mercantilist theories and practices have been criticized by many writers. The opposition actually started towards the end of the 17th century. The storm of criticism against mercantilism was particularly strong in France. The criticism against mercantilism reached its climax towards the end of the 18th century when Adam Smith published his book "The Wealth of Nations". Adam Smith was concerned about how wealth can be created and expanded. He was influenced by the individualist orientation of English political philosophers Thomas Hobbes (1588-1679), John Locke (1632-1704) and Italian Political Theorist Niccolo Machiavelli (1469-1527). As a political economist in the 18th century, Adam Smith emphasized the role of individuals over that of the State and generally attacked the State - centered theories of mercantilism.

Laissez-faire philosophies, such as minimizing the role of government intervention and taxation in the free markets, and the idea that an "invisible hand" guides supply and demand are among the key ideas Smith's writing is responsible for promoting. Adam Smith held that forces of supply and demand should be completely autonomous and should be free from any sort of state intervention. Smith's ideas became the foundation of the classical school of economics and gave him a place in history as the father of economics. Concepts Smith pioneered, such as the invisible hand and the division of labor, are now quintessential economic theories.

David Ricardo was an early exponent of this theory. According to Ricardo countries enjoy certain comparative advantages. If there is free exchange and free competition among the countries every country stands to benefit from this process and it will promote specialization and relative efficiency. However this free market philosophy of the economic liberals received a set back during the Great Depression in the USA that lasted from 1929 to 1933. Then the famous British economist John Maynard Keynes (1883-1946) recommended an interventionist role of the state for the stabilization of the markets for ensuring full employment conditions. For a better, more efficient management of market an interventionist role was accepted. Keynesian economics was popular in the 1930s and even in post World War II situation throughout the world. This policy of stabilizing the economy

was accepted. The Keynesian Revolution contributed to the rise of welfare state and to an increase in size of government relative to the private sector. However, in the 1980s there was a revival of Liberal Economic Theory as preached by President Ronald Reagan (1911-2004) of the USA and Prime Minister Margaret Thatcher (1925-2013) of UK. According to this new form of liberalization there were attempts made to liberalize markets worldwide and economies were made free from state control and any form of subsidization.

Marxism

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. Karl Marx was born after the French Revolution, 1789. The theory of Marxism is completely opposite to that of economic liberalization. According to Karl Marx, it is the economic structure that determines the political super structure of the society. The economies are the sights of dominance and exploitation by the propertied classes. Historically there have been ruling dominant and exploiting classes like the slave owners versus the slaves. In Feudalism it is the lords who are opposed to the serfs, in modern capitalism, we find the society divided between the ruling capitalist class or what Marx called the bourgeoisie and the proletariat i.e. the working class.

The Hegemonic Stability I- This theoretical perspective is altogether different. It involves complete rejection of Laissez-Faire liberal philosophy. Subsequent writers who are called the Neo Marxists like Immanuel Wallerstein, born in 1930, has analyzed the development of world capitalism and according to his interpretation the world is divided into three zones – The Core Zone, The Peripheral Zone and countries belonging to the Semi-Peripheral Zone. North America, Western Europe and Japan belong to the core and all other poor and backward countries constitute the periphery or called the Third World. In between there are a few countries which have developed to some extent and come under the bracket of semi-periphery. Now these three theoretical perspectives of Mercantilism, Economic

Liberalism and Marxism have given birth to three important debates- Hegemonic Stability, Underdevelopment of the Third World and Issue of Globalization.

i. Hegemonic Stability I

Regarding the first debate it is held that hegemony, a dominant economic power, is necessary for ensuring free trade across all the nations. It is because free competitive trade constitutes by itself a public good or a public service that can often be subjected to cheating. For example in the case of public good there can be a free rider problem. It becomes necessary to check whether tickets have been purchased in public transport or not. Similarly in international trade we have to build a trade regime and we have to ensure that the rules of the regime are strictly honoured and observed by the participating states in the trade regime. Historically this role has been played by a dominant political power. In modern society this role of the hegemon was played initially by Great Britain. Gradually the power of Britain declined in the 19th Century and thereafter this role was played by United States in the 20th Century. After the World War II, United States created certain organizations called International Monetary Fund, International Bank for Reconstruction and Development, and General Agreement on Trade and Tariff (World Trade Organization). This is known as the Bretton Woods System. This system collapsed in the beginning of the 1970's because the power of United States declined.

Hegemonic Stability II - During the Second World war, United States controlled about 51 percent of world output which came down to about 23 percent around 1970's and early 1980's. It had also suffered economic problems due to its continuous involvement in the Vietnam War and due to the decision of the Oil Producing and Exporting Countries (OPEC) to raise the price of oil by a large amount in 1973-74, which is called the 'Oil Shock'. The war expenditure and oil price shock caused a decline in the value and importance of US dollar. So the world witnessed by 1970's that the hegemonic power of United States was declining. The debate centered around the question of whether a hegemonic power is at all necessary or not. This was raised by Robert Gilpin, born 1930 and Charles Kindleberger (1910-2003) who are two important exponents of Hegemonic Stability. Even after a relative decline in

the power of America in the 1970's, international trade carried on as usual. A hegemonic power is necessary with respect to certain vital markets like finance, trade and oil. But Robert Gilpin's analysis that the power of United States has suffered a decline was not accepted by some writers, for example Susan Strange (1923-1998) and Joseph Nye born in 1937. They hold that US remained a very powerful and dominant actor in international arena even after the Vietnam War and the oil crisis. It still commands a large share of world output. US still excelled in high techniques and technological innovation and share in manufactured goods and services of primary products etc. So United States still remained according to these writers, a very large hegemonic power. Writers like Robert Keohane, co-founder of the international relations theory of Neo Liberalism held that USA played an important hegemonic role post World War II and created the financial architecture of Bretton Woods. It continued to play hegemonic role by helping Western Europe and Japan to restore their economies post World War II situation by offering them Marshall Aid and providing assistance and different forms of collaborations to Japan. The Marxists or the neo Marxists contained that US hegemonic role was not truly global because the assistance that it extended to European countries and Japan after the Second World War was not accepted by former Soviet Union and by the countries belonging to the Soviet Block. In the post World War II situation Soviet Block itself was very important as there were several East European countries who were communists. So the exclusion of Soviet Block of countries and marginal position of the Third world countries meant that the hegemonic world of United States was based on exclusion of a large segment of humanity.

ii. Underdevelopment of the Third World

The Economic Liberals came up with a theory of Stages of Economic Growth written by famous American Economist Walt Whitman Rostow (1916-2003). He presumed and propagated that society passes through various stages of economic growth like (1) A traditional Economy (2) An agrarian economy (3) A pre-industrial economy (4) A transitional

economy (5) High mass consumption society. This trajectory of capitalistic development, that is, the way capitalism had developed in the Western European countries, W.W. Rostow took it for granted that this trajectory of economic development would also be followed by the Third World countries. But what we witnessed is that the development of the Third World countries did not occur in this way. Development in these countries happened at a very slow pace. This theory of modernization was criticized by the Neo Marxists and their school of thought is known as School of Dependency. Third World countries are underdeveloped and poor because their poverty is causally linked with the development of the Western countries. According to the Dependency Theory it is on the basis of drainage of resources, drainage of wealth from the former colonies, which now constitute the Third World that the prosperity of western countries was based upon. So development of the West was achieved at the cost of the underdevelopment of the Third world. That was the claim of the Dependency Theorists. They wanted a complete delinking with capitalist economies. Also at the same time they did not want to pursue Soviet economic model of centralized decision making, that is, of a command economy. They wanted decentralization. They differed both from traditional liberal economists as well as from Soviet Marxists model. But radical Dependency came under criticism in the 1970's. On the other hand we witness the successful development of four Asian countries called 'The Asian tigers' which are South Korea, Hong Kong, Taiwan and Singapore. This justified the claim of liberal economic theorist that growth and economic prosperity is achievable. However this claim is not accepted by the Mercantilists. They hold that the success of the East Asian countries proves the point of the commanding role of the state which is their main assumption that state should play a determining role in the economic development. Modern Mercantilists prescribe a comprising position. They want to retain some liberal character of the economy and at the same time say that states do play an important role in the decision making process and states remain important actors in the process of economic development.

iii. Globalization

Following the end of the Cold War, international political economy became focused on issues raised by economic globalization, including the viability of the state in an increasingly globalized international economy, the role of multinationals corporations in generating conflict as well as growth in the 'new global economy'. Globalization is intensified interdependence in social, economic and cultural relations across international borders. This globalization process was championed by the 'Thatcherites' and the followers of President Reagan's policies. Marxists have always criticized globalization as the latest form of capitalism or capitalism spreading its tentacles across the frontiers of different countries. This globalization was strongly recommended by optimistic economist Milton Friedman (1912-2006). On the other hand the Mercantilists have rejected it. They hold that globalization have not made any qualitative shift. It is not intensified interdependence. What they want is a continuance of global capitalist system parallel to global economy. The Neo Marxists have strongly criticized it. According to them, Globalization means increasing dependence of poorer countries on the First World countries which are called the macro regions. Today we find that United States is not the only dominant hegemonic player. Instead of that the countries of the core areas as mentioned by Wallerstein, such as countries of Western Europe that is the European Union, countries of North America and Japan are the macro regions of the world. They have built up a new institutional framework for accumulating the resources of the entire world. Therefore globalization is a form of capitalism. It is uneven and it is hierarchical in character. It has increased the hiatus between the 'haves' and the 'have nots', between the countries of the Third World and the countries of the First world or the macro regions.

Therefore wealth and poverty have become the most important issues in international politics today. Traditionally war and peace constituted the main issues of theorists of international politics but now war on a large scale has been on the decline. But violence occurs mainly inside the weak states and it is definitely connected with the underdevelopment of the poorer countries of the world with weak state apparatus.

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