DIRECTORATE OF DISTANCE EDUCATION

UNIVERSITY OF NORTH BENGAL

MASTER OF ARTS-POLITICAL SCIENCES

SEMESTER -IV

POLITICAL ECONOMY OF DEVELOPMENT

CORE 401

BLOCK-1

UNIVERSITY OF NORTH BENGAL

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FOREWORD

The Self Learning Material (SLM) is written with the aim of providing simple and organized study content to all the learners. The SLMs are prepared on the framework of being mutually cohesive, internally consistent and structured as per the university's syllabi. It is a humble attempt to give glimpses of the various approaches and dimensions to the topic of study and to kindle the learner's interest to the subject

We have tried to put together information from various sources into this book that has been written in an engaging style with interesting and relevant examples. It introduces you to the insights of subject concepts and theories and presents them in a way that is easy to understand and comprehend.

We always believe in continuous improvement and would periodically update the content in the very interest of the learners. It may be added that despite enormous efforts and coordination, there is every possibility for some omission or inadequacy in few areas or topics, which would definitely be rectified in future.

We hope you enjoy learning from this book and the experience truly enrich your learning and help you to advance in your career and future endeavours.

POLITICAL ECONOMY OF DEVELOPMENT

BLOCK-1

BLOCK-2

BLOCK 1: POLITICAL ECONOMY OF DEVELOPMENT

Introduction to the Block

Unit 1 deals with Political economy offers a framework of analysis that is wider than conventional economics. Conventional economics has markets at the center of analysis.

Unit 2 deals with Evolution of the Concept. Comparative politics seeks to study relationships among countries. It seeks also to find explanations for specific social and political phenomenon in these relationships.

Unit 3 deals with classical political economy (Smith, Ricardo). Classical and marginalist economics differ in important respects – the former is not simply an early and rude precursor of the latter.

Unit 4 deals with Neoclassical economics is an approach to economics focusing on the determination of goods, outputs, and income distributions in markets through supply and demand.

Unit 5 deals with The concepts and theories of development. The Classical School of economic thought was formalised by Adam Smith, Malthus, Ricardo, Mill and Say, who developed the classical theory of development.

Unit 6 deals with It is in this context that a brief discussion of the terms like capitalism, capital, capitalist industrialization and industrial revolution has been provided in this Unit. A brief survey of the theories of the emergence of capitalism has been made along with a detailed discussion of capitalist industrialization in different countries

Unit 7 deals with debates on transition from feudalism to CAPITALISM (DOBB, SWEEZY and Brennar).

UNIT 1: INTRODUCTION OF POLITICAL ECONOMY

STRUCTURE

1.0 OBJECTIVES

After this unit, we can able to understand: After going through this unit, you will be able to: λ state the framework of political economy; λ appreciate the historical context of India's economic backwardness; λ evaluate economic planning in India's democratic polity under 'mixed' economy; and λ identify the implications of the on-going process of economic liberalisation in India.

- To know about the Political Economy: Concept
- To know the Development: Concept
- To know Underdevelopment at the Time of Independence
- To know the Development Thinking
- To discuss the Development Planning
- To know about The Regime of Economic Liberalisation

1.1 INTRODUCTION

Indian independence from British rule in 1947 raised hopes of a new India. Two and a half centuries of colonial experience (from c.1700 to 1947) left our economy in ruins. Both agriculture and industry were characterised by extremely low levels of productivity. This implied mass poverty, widespread disease and ignorance. Any hope of improving the general standard of living on a sustained basis rested on the creation of a firm economic foundation. This was the major challenge before India after independence. There was a second challenge as well. This related to nation-building in the vast sub-continent. A diverse society deeply divided by language, geography, caste, religion and feudal power structures was to be transformed into a modern democracy based on universal suffrage and commitment to a national constitution.

Any programme of economic reconstruction could not rely exclusively on private enterprise (or market economy) and required an active role of the state (or, roughly speaking, the public sector). In fact, the development of private enterprise itself depended heavily on the basic economic foundation to be created by the state. The programme of economic reconstruction therefore had to be executed in the context of a 'mixed' economy with clearly demarcated areas for the market and the state. Moreover, such an economic leadership of the state was to operate within the political framework of democracy. This was undoubtedly a great social experiment with no parallel in history. It was eagerly awaited by the world divided into two major power blocks led by the United States of America and Soviet Russia. This unit traces the course of economic development in independent India, its nature and constraints, and its success and failure. We approach the issue through the framework of political economy. This framework takes a broader view of the economy, whereas the conventional framework considers the economy primarily as a network of markets. To begin with, we shall explain the concept of political economy and development. We shall then survey the state of Indian economy at the time of independence and the thinking about economic development at that time. Our study period of roughly six decades (1950-2010) falls into two subperiods. The latter correspond to major regimes of economic policy. The first subperiod of roughly four decades (1950-1990) relates to an ambitious programme of industrialisation with the Indian state playing a lead role. The second sub-period of two decades since 1991 saw a major shift in political and intellectual environment in favour of the market in achieving economic growth and efficiency. This we shall cover under the policy regime of economic liberalisation.

1.2 POLITICAL ECONOMY: CONCEPT

Political economy offers a framework of analysis that is wider than conventional economics. Conventional economics has markets at the center of analysis. Society is seen as an aggregation of individuals as rational agents maximising their utility or profit. In this view of the economy, markets solve practically all problems of interest to the economist. These include production (namely, what and how much to produce along with the technique of production); exchange (or what prices various goods and services should be fetching); distribution (or the claims of different 'factors' of production on national income); and growth (the rate and pattern of growth of national income). The state or its agent, the government of the day, exists on the sidelines of the market economy without playing an essential role in it. You may be wondering how political economy is different from this conventional view. Political economy is equally concerned with the four basic economic processes just mentioned. However, its approach is different in three fundamental ways. First, individuals in society are first and foremost members of social classes. The social classes relate to the economy in specific ways, for example as owners of capital, workers, landlords, peasants, bureaucracy and so on. The distribution of economic power among the social classes and its impact on policies of the state are of particular importance to political economists. Individuals are thus social individuals, their activities and behaviour being conditioned by the social class to which they belong. Secondly, while markets are important as an economic institution, political economy views the historical, social and political forces underpinning markets to be more fundamental. It is these forces that determine the nature and functioning of markets. Finally, the state is an integral part of the economy. Its economic policies mediate the interests of social classes. Often, there is a conflict of interests and the state must deal with them one way or another.

1.3 DEVELOPMENT: CONCEPT

Economists distinguish between economic growth and development. Economic growth represents growth in per capita income or the amounts of goods and services people can command on average. Development certainly includes growth but has a wider scope. It includes changes in economic institutions. With economic growth, consumption patterns and life-styles change. On the other hand technical progress enables production of entirely new goods and services. Both these imply changes in the composition of aggregate output. These changes will be accompanied by shifts in the composition of workforce. Further, economic growth will be accompanied by greater or lesser inequality of income distribution. Similar shifts may attend export orientation, business organisation, legal framework, financial institutions, wage-bargaining mechanisms and infrastructure development. Together, these imply transformation of the economy as a whole. It is this institutional transformation that accompanies economic growth that is captured by the wider concept of development. There is a second dimension to the concept of development. It relates to the quality of life of people. The ultimate end of development is improved quality of life. From this standpoint, development is to be judged from whether people are able to live better, stay healthy and educate themselves. Freedom from drudgery, absence of discrimination of all kind, opportunities for self-enrichment and pursuit of higher human needs are important goals of any development process. Development in this sense represents an increasing arena of freedom in which people can realise their full potential as human beings. The Human Development Index, now widely published by national and international agencies, is an attempt to measure the quality of life. It is now widely recognised that economic growth by itself cannot ensure development in terms of quality of life. Policies have to be explicitly designed and implemented to ensure that economic growth translates into human development.

1.4 UNDERDEVELOPMENT AT THE TIME OF INDEPENDENCE

To understand the problem of underdevelopment in India at the time of independence, we need a historical perspective. India's colonial experience provides that perspective. The framework of political economy requires that we look at colonial impact on broad sectors of the economy and social classes. Since the eighteenth century, the world economy has been transformed by two major forces: (i) Industrial Revolution, and (ii) colonialism. These forces combined to divide the world into 'developed' and 'developing' economies. Industrial Revolution in Western Europe, especially Britain, led to significant increases in productivity of labour and prosperity there. However, the benefits of that revolution did not spread over to much of Asia, Africa and Latin America because of colonialism. These regions became especially impoverished after they became colonies. Industrial Revolution and colonialism operated in tandem because the countries that prospered were imperial powers of Europe and the countries which were impoverished were their colonies.

India's colonial experience, primarily under the British, spanned two and a half centuries, from c.1700 to 1947. The period from 1700 to 1857 was marked by the rule by East India Company, while the period from 1858 to 1947 witnessed direct rule by the British Crown. The two sub-periods presented different kinds of British interests in India and therefore economic policies for India. The trading activities of East India Company, often involving underpayment, coercion and violence, damaged local merchants, peasants and weavers. Indian agriculture and peasantry received a major setback through land revenue settlements. Both the zamindari and ryotwari systems of land settlement led to a new class of intermediaries between the tiller and the company. The peasantry was weighed down by onerous revenue demands of the company and margins of intermediaries even during famines. Because revenue payments had to be made in cash, farmers were forced to shift cultivation from food crops to commercial crops. They became market-dependent for food grains. Under the combined weight of revenue demands, usury and rack-renting, peasants were forced to sell their lands to merchants and moneylenders or become tenants on the estate lands. The simultaneous decline of rural crafts and urban industry meant that crafts persons and industrial workers joined the ranks of the rural landless and the poor. The intermediaries emerged as the new dominant social class. Neither the company nor intermediaries showed any interests in the longterm development of agriculture through investments. These tendencies only worsened during the rule by the crown. A shift from company rule to direct rule by the crown became imminent as British industry required India to be both a major source of raw materials and an assured market for British manufactures. These considerations did force the imperial power to invest in India in the selected sectors of irrigation and transport network to port towns. As manpower requirements of civil and revenue administration grew, liberal English education was introduced. However, increasing commercialisation of agriculture to serve British interests did not provide any relief to the peasantry that continued to reel under revenue demands and the combined hold of landlords, merchants and moneylenders on the rural economy. Labour employed in British tea, coffee and rubber plantations in India lived in slave-like conditions. Indian industry also suffered a major decline under the crown rule. Competition from British manufactures meant a decline in demand for domestic handlooms, metals, tools, glass, paper products and so on. This ruined millions of artisans and craft industries. The decline of traditional industries was not compensated by the development of modern industries. As British capital was mainly directed to banking, commerce, shipping and insurance, no foundation was laid for the development of heavy industries. There was no scope for nurturing a native entrepreneurial class. This phenomenon of decline of traditional industries and the lack of development of modern and heavy industries is known as de-industrialisation. New ways of draining away the economic surplus generated in India were introduced. India's foreign trade surplus was transferred to British accounts. Home Charges and making India pay for British wars in Afghanistan and China were other means of drain. The economic impact of colonial rule in India was devastating. The colonial state took no responsibility for the general welfare of Indians. While markets in output advanced significantly, labour, credit and land markets remained underdeveloped. The colonial legacy of economic stagnation and decline posed a major challenge for development in independent India.

Check Your Progress 1

1) How 'Political Economy' is distinct from market economy?
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2) Explain the different dimensions of development.
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3) State the economic impacts of colonial rule in India.
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1.5 DEVELOPMENT THINKING

On attaining independence India had to reckon with the challenge of building from scratch an economy that could promise a life of security and dignity for the millions within an acceptable time frame. Leaders of the nationalist movement were aware that freedom from foreign rule was not the ultimate goal. Nationalist writings and regional social reform movements also bear testimony to an understanding of what we today call 'human development'. The Gandhian approach to economic development emphasised voluntary limitation of wants, sustainable use of natural resources and self-sufficient village communities. Although this approach did generate some debate before and after independence, the modernising approach of Nehru, stressing growth in commodity production and capital stock found favour with both congress workers and the left wing politicians. In terms of development thinking, there was a general consensus among all classes on two issues: (i) that industrialisation was the key to economic growth, and (ii) that the state must take the lead to initiating the process of economic growth. Both the

'Bombay Plan' prepared by leading industrialists even before independence and the Industrial Policy Resolution of 1948 bore testimony to this consensus. Industry, unlike agriculture, has the potential of unlimited expansion of output, employment and productivity. Its development is imperative for transferring the huge reservoir of underemployed labour for low productivity agriculture. On the other hand, modernisation of agriculture required industrial inputs such as farm machinery, irrigation and transport equipment and fertilizers. Active role of the state in industrialisation was envisaged on two grounds. First, a native class of industrialists was yet undeveloped. Secondly, the quantum of resources required for creating basic industries and infrastructure being huge, and the risks of such large projects being very high, private enterprise could not be relied up on to take the lead in industrialisation. An important idea that emerged out of this development thinking was that of planning.This idea and its formal acceptance as a vehicle for carrying out the programme of industrialisation had two major sources. At the political level, Prime Minister Nehru was impressed by the industrial achievements of socialist planning in Soviet Union after the Russian Revolution. The Industrial Policy Resolution 1948 accepted the idea of planning as a time-bound process of achieving prespecified targets through prioritised allocation of investments. The IPR demarcated broad areas of action for the government (public sector), the big private industry and the traditional industry. A Planning Commission as a non-statutory advisory body was set up with the Prime Minister as the chairman. At the theoretical level, planning was inspired by the experience of post-War reconstruction in Eastern Europe. The literature that grew out of this experience emphasised the advantages of coordinated industrial investments. These included complementarities, linkages, spread effects and externalities of a major industrialisation programme. Since markets either did not exist or could not adequately signal these advantages in a backward economy, a plan was thought to be essential. Accordingly, the First Five Year Plan (1951-55) was put together rather hastily based on a meagre data base of the Indian economy. A target rate of growth of national income over the plan period was derived from an estimated saving rate and an estimated capital-output ratio. A technically more sophisticated plan model was developed by the physicist turned statistician P.C. Mahalanobis. This model emphasised a conscious bias towards heavy industry and came to be known as the Nehru-Mahalanobis strategy. The Mahalanobis model became the bedrock of the Second Five Year Plan (1956-60) and all subsequent plans until the early 1990's. The final version of the model divides the economy into two sectors: the capital goods sector and the consumer goods sector. The model demonstrates how long-term rate of growth of the economy would be the maximum if the share of annual investment going into the capital goods sector increased progressively. However, the country had the technical option of importing capital goods rather than produce them at home. This option was ruled out as there was a shortage of foreign exchange reserves. The development of a domestic capital goods industry would then have a double advantage. First, the country could save on its meagre foreign exchange resources and secondly, it could reap the benefits of creating a base for industrial growth. It is also important to note that certain critical components of infrastructure such as power and transport networks cannot be imported. They must be erected domestically. Such items are known as 'non-tradables'. Each five year plan will have separate components for the public and private sectors giving out targets of growth and investment. Thus a state-led import-substituting industrialisation strategy with a bias towards heavy industry through five year plans came to be established in India. In the following section, we shall evaluate the career of this system of development planning in India. Our focus, again in the spirit of political economy framework, will be on in sectors, institutions, social classes and the state.

1.6 DEVELOPMENT PLANNING

We can identify the following four major components of the Nehru-Mahalanobis strategy: 1) The need for a comprehensive programme of import-substituting industrialisation to break out of the syndrome of centuries of economic backwardness;

2) A conscious bias towards heavy industries; 3) The commanding role of the state in a 'mixed' economy with a private sector; and 4) The need

to carry out the programme in a framework of five-year/annual plans. Translating the first three strategic choices into implementable plans, a policy framework was needed. First and foremost, the separate domains of operation for the state (public) sector and the private sector were demarcated. For this, the policy instrument of reservation of industries for the two sectors was implemented. According to the Industrial Policy Resolution 1956, the public sector was to cover, apart from defence production, atomic energy and railways, the core industries of coal, iron and steel, shipbuilding, communications, heavy machinery and heavy electrical. The private sector had an exclusive schedule of industries. However, it could enter some areas reserved for the public sector subject to a system of licensing. Small and village industries also had a list of items reserved for them. The scope of industrial licensing was wide. In addition to regulation of entry into particular industries, licensing covered capacity, production level, product mix and import of technology and capital goods. There were wide-ranging import controls, covering quantitative restrictions and tariffs, to protect and promote home industry. Controls on foreign exchange were also put in place. Planned industrial development thus involved a plethora of controls. The era of planning with the dominant role for the public sector and an elabourate system of controls, licensing and permits operated for at least three and a half decades, viz. from 1956 to 1990. The career of planning must be evaluated against the objectives set out for planning. It is important to take a dispassionate and balanced view of the outcome of Nehru-Mahalanobis strategy. There were significant achievements but also significant failures. Development planning helped the economy overcome some constraints but it was also subject to new constraints. In the first half of the twentieth century Indian economy suffered a near stagnation in growth. As compared to this, real national income (at 1948-49 prices) grew at an average of four per cent per annum during 1950-90. By itself, this was a significant achievement. A second major achievement was that a solid foundation for industrial development was laid during this period. Apart from basic infrastructure, key basic and capital goods industries were established. As envisaged by the plan strategy, the public sector took the lead role in building this base. The private sector achieved a significant growth and diversification in intermediate and consumer goods industries. This would not have been possible without the foundation laid by the public sector. The size of the public sector, measured as its share in gross domestic product (GDP), rose from ten per cent in the early 1960's to 24 per cent in the early 1990's. The economy built up production and technological competencies and manpower and skills in a host of industrial lines.

This implied that the country became self-reliant (i.e. not critically dependent on imports) over a wide range of industrial goods and services. There were two major failures of planning over a long haul of nearly four decades. First, the overall rate of economic growth, respectable though it was historically, did not translate into an appreciable rise in average standard of living in India. As against the overall growth of four per cent per annum, growth in per capita income averaged only 1.8 per cent per annum. This was well below the plan targets. The proximate reason for this was population growth. Following a decline in the death rate after independence, population growth in India averaged 2.1 per cent per annum. Given the large base of India's population, this amounted to huge additions to the stock of population year after year. A second major failure of development planning in India has been a very slow growth of employment. Although Indian economy grew appreciably over the four decades under reference, Indians did not benefit from either employment growth or productivity growth. The share of agricultural sector in GDP steadily declined, but there was no corresponding decline in the concentration of workforce in agriculture. The non-agricultural sectors of the economy, whose share in GDP rose sharply, did not generate opportunities of productive employment on a scale necessary to ease pressure on agriculture. This asymmetry between economic growth and employment growth holds the key to the paradox of economic growth and persistence of absolute poverty in India. In particular, employment growth in manufacturing sector was extremely low. This is because, contrary to the original intent of Mahalanobis, traditional and small scale industries have not been developed. The long-run growth of the economy at four per cent mentioned above is an average. It hides significant fluctuations in growth year to year or plan to plan. There were also unexpected 'shocks' to the economy induced by weather, wars, internal emergency and international developments. The lowest average growth occurred in the Third Plan (1961-66). In this period India had wars with China and Pakistan, apart from famines. This led to the suspension of planning for three consecutive years (1966-69). The Fourth Plan (1969-74) saw India's second war with Pakistan, the Bangladesh war and the First Oil Shock of 1973. The Fifth Plan (1974-79) witnessed declaration of internal emergency and the Second Oil Shock. The economy posted negative growth in 1979-80. It would, however, be wrong to attribute the failures of planning to these unanticipated shocks. There were specific constraints on economic growth that were operating and these were well known to planners. There were four major constraints: food, savings, foreign exchange and demand. They were also interrelated. Overcoming them required a policy framework beyond controls and licensing, institutional changes and political mobilisation, apart from dealing with class interests and conflicts.We must consider the constraints briefly. A growing output of food grains is absolutely crucial in a situation of growing population and additional purchasing power that plan expenditure generates. Yet a proliferation of small holdings, traditional technologies of farm production under mainly rain-fed conditions and the specific characteristics of agrarian markets meant that food grain output was not elastic with respect to demand. The consequent rise in food prices fuels general inflation. In the 1950's and early 1960's India was dependent on food imports. This was not a long-term solution. To deal with the institutional aspects of agricultural backwardness, land reforms were vigorously debated as a means to increase productivity and production in agriculture.

However, comprehensive land reforms, especially a radical redistribution of land, were a non-starter given that the Indian state was dominated by landed interests. Consequently, India had only token land reforms in terms of abolition of intermediaries and legal protection of tenants. A way-out to increased food production without radical land reforms was found in new agricultural technology. Better known as Green Revolution technology, this involved short-duration high yielding varieties of seeds of rice and wheat, controlled application of water through irrigation and chemical fertilizer. This yield-raising technology was initially adopted in the more favourable regions of Punjab, Western Uttar Pradesh and deltaic regions and took a long time to diffuse to other regions. This technology was combined with a policy of food procurement and buffer stocks, along with minimum support prices. This policy did succeed in achieving self-sufficiency in food grains but led to other contradictions in terms of regional and social inequalities, land degradation due to intensive cropping and decline of water tables in several regions following extensive use of ground water for irrigation. The agricultural policy also started a conflict of interest between industrialists and large farmers whereby the relative prices of agricultural commodities and manufacturing, known as intersectoral terms of trade, became a major political issue. A second constraint related to shortage of savings. The huge investment demands for new industrial projects coupled with a low rate of saving in the economy and limited possibility of foreign investment meant that the plans depended heavily on budget deficits. In the context of low elasticity of supply of wage goods, especially food, and long gestations periods of industrial projects, this led to high rates of price inflation. The burden of taxation inevitably fell on indirect taxes. This contributed among other things to increased inequality. Thirdly, shortage of foreign exchange resources meant limited ability to import critical capital equipment. The cost of imports also was high because of a fall in the exchange rate. At the same time, Indian exports were not cost competitive in the international markets. All these cumulated into an endemic pressure on account of balance of payments. Finally, because of the various mechanisms operating to sustain mass poverty in the country, the economy has faced a persistent problem of insufficiency of domestic demand. This is despite the fact that India has a potentially huge home market given the size of her population. All these constraints operated to ensure that economic growth and development in the era of planning low and halting. Planning could not get over the structural problems of poverty and unemployment. This is despite some radical measures such as nationalisation of scheduled commercial banks in 1969 by Indira Gandhi. Bank nationalisation did achieve expansion of banking facilities throughout the length and breadth of the country, besides directing credit to agriculture and household and small industry. Such measures were not by themselves sufficient to make a dent on mass poverty. In fact, by the late 1960's it became clear that two decades of planned economic development had not improved the general levels of living of people. This was because planning had not delivered on expansion of productive employment for labour at large. Indira Gandhi's subsequent call for GaribiHatao (Banish Poverty) took a turn towards various poverty alleviation programmes without reorienting industrialisation for growth of productive employment.

Check Your Progress 2

1) In term of development thinking, what were the two major issues having consensus across the board?

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2) Explain the import-substitution industrialisation strategy.

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3) State the major components of Nehru-Mahalanobis strategy.

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4) Give an account of major failures of planning over a period of four decades- (1950-1990).

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1.7 THE REGIME OF ECONOMIC LIBERALISATION

The year 1991 marks an important landmark in the history of Indian economy. For in this year, the country adopted comprehensive macro-economic reforms. The reforms were to replace the Nehru-Mahalanobis strategy with policies aimed at reducing the role of the state including the public sector, dismantling of controls, opening up the economy to foreign trade, investment and finance. We survey the background, the process and the general outcome of this ongoing programme of economic liberalisation. The switch to a regime of economic liberalisation was driven by a crisis of balance of payments. Government finances were in a bad shape thanks to regular fiscal deficits. The country's foreign exchange resources were at a record low. Early 1991, foreign reserves were not adequate to finance even a month of imports. Inflation was high. There was political instability with frequent changes in government. Internationally, the turbulent situation in the Middle East and the collapse of the USSR meant that the remittances from non-resident Indians declined sharply and the panic-stricken NRIs actually sought to withdraw their foreign currency deposits in India, making our payments position even more precarious. Driven by this acute payments crisis, India contracted a huge loan of 3.6 billion SDR (Special Drawing Rights, an international reserve asset) from the International Monetary Fund (IMF) in June 1991. However, the loan came with the condition that India, as loan recipient, would carry out comprehensive economic reforms. There was also an important shift in the intellectual climate worldwide at the time. The new approach to managing the world economies, including the developing countries, recommended an enlarged role for the market (as against the state) and deregulation of foreign trade and financial markets. Promoted by the World Bank and the IMF, the approach came to be known as 'Washington Consensus'. It replaced the older 'development consensus' of the 1950's which favoured pursuit 39 of autonomous industrialisation strategies including protection of domestic industry by the developing countries. The change in the intellectual climate was also occasioned by the success stories of several East Asian countries. Liberal economic policies followed earlier in the 1980's by President Reagan in the US and Prime Minister Thatcher in Britain lent political support to the shift. Not in the least, the decline of Keynesian macro-economics and its replacement by orthodoxy in the academia and the policies of central banks in the West were an influence. Meanwhile, there was a tremendous growth in global finance capital which came to dominate trade in goods, services and investment.

Multinational banks and corporations controlling the global finance were mounting pressure on all economies to open up their markets to it. The programme of liberalisation adopted by India in 1991 had two major components:

(1) Stabilisation and

(2) Structural adjustment.

Both are based on the conviction that the economy works best when it is left to market forces with minimal state interference. The programme of stabilisation, recommended by the IMF, seeks to stabilise prices, budget and balance of payments deficits and exchange rates in the short run. There are two instruments for achieving stabilisation. The first is deflation, or reduction of aggregate demand, particularly through reduction in government expenditure. Deflation is supposed to improve balance of payments through reduced imports. Deflation would bring down the price level and therefore take the exchange rate to a realistic level.The second component is monetary policy. A tight monetary policy and the resulting high interest rates would attract private capital flows into the economy. Structural adjustment, the other major component of the liberalisation programme, is recommended by the World Bank. It is focused on long-run growth and efficiency. According to this, a developing country will place itself on to a high and efficient growth path when it aligns domestic prices with international prices and its resources shift to private uses and exports. On this belief, the Bank would recommend complete liberalisation of foreign trade in goods, investment, technology and finance. In addition, it recommends deregulation and privatisation in the domestic economy. The Fund-Bank prescriptions are thus a complete reversal of ‘development consensus’ and the Nehru-Mahalanobis strategy. The Fund-Bank package of reforms would obviously affect the interests of certain social classes while they may damage the interests of other classes. Which section of India should bear the burden of adjustment? This, of course, was a hard political choice. While India accepted the package in full, it had to adopt a particular sequencing of reforms that would meet with least political resistance. The external sector, domestic private industry and financial sector were favoured for reforms. Agriculture and the public sector have hardly been touched so far. On the external front, major reforms have been implemented. Practically all restrictions on trade have been removed. Peak customs duties have been reduced. Capital flows of both direct and portfolio types have been freed. The exchange rate is more or less market determined.The new industrial policy of 1991 brought out far-reaching changes. Industrial licensing was effectively abolished and limits on investment were softened through amendments to Monopolies and Restrictive Trade Practices (MRTP) Act. The new policy permits mergers and acquisitions among companies. Reforms in the financial sector spanned banking, government securities market and deficit financing following the recommendations of the Committee of the Financial System, better known as the Narasimham Committee. To improve profitability of banks, strict limits were placed on government borrowing Political Economy of Indian Development Implementation and Monitoring of Economic Policies 40 from banks. The policy envisaged reduction in the non-performing assets (NPAs), improvement of capital adequacy of banks and reduction in cash reserve ratio (CRR) and statutory liquidity ratio (SLR). It is too early as yet undertake a comprehensive evaluation of stabilisation and structural adjustment policies because the reform process is still on. However, we can point to certain tendencies already evident. The post-reform, especially since 1996-97 saw a clear acceleration in the growth of Indian economy. The same period saw a striking growth of the tertiary sector, while agriculture posted a steady decline as a share of GDP.

Growth of employment remains dismal. Deflationary policy has meant that government expenditure, especially on capital account, has declined. This has especially affected agriculture and created a scenario of agrarian distress. There was a spate of farmer suicides all over the country and traditional, labour-intensive industries such as handlooms have suffered. Poverty ratio remained as high as 37 per cent in 2004-05. Despite all the focus of reforms, the share of secondary sector, in particular manufacturing, in GDP has not shown a marked growth. The service sector growth, while it has been impressive, has been concentrated on selected sub-sectors such as financial services, information technology, real estate and public administration with limited opportunities for ordinary labour for productive employment. The foreign exchange reserves, thanks to IT exports and large inflows of short term capital, have improved. These gains have been lost, however, after the global economic crisis since 2008. This period has seen again a stress on balance of payments, high inflation combined with a tight monetary policy and slippages on fiscal deficit targets. A paradox of the reform process so far is that agriculture sector and the public sector remain untouched, excepting the policy of disinvestment in public sector enterprises. The long-term objectives of economic development – elimination of structural poverty, unemployment and inequality – remain unfulfilled after both the major shifts in economic policy in independent India. Even so, the very process of economic reforms faced a political constraint. The decline of hegemonic national political parties and the emergence of coalitional politics after the 1980's has led to a lack of consensus on the pace and pattern of economic reforms. According to the dominant view, more through-going reforms are needed to realise the full growth potential of the Indian economy.

Check Your Progress 3

1) Identify the two major components of the programme of liberalisation.

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2) Enlist the positive impacts of liberalisation.

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3) What are the prospects of outcomes of economic liberlisation?

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1.8 LET US SUM UP

Political economy framework perceives individuals as first and foremost member of social classes in term of specific ways viz. owners of capital, workers, land lords, peasants, bureaucracy etc. The activities and behaviour of social individuals are conditioned by the social classes to which they belong. The historical, social and political forces determine the nature and functioning of markets. The State is an integral part of the economy. Its economic policies mediate the interests of social classes. Development is wider concept. It includes economic growth and changes in economic institution. It relates to the quality of life of the people. The economic impact of colonial rule in India was devasting. The colonial legacy of economic stagnation and decline in agriculture and industrial sector posed a major challenge for development in Independent India. At the eve of independence, there was a consensus on two major issues:

(i) industrialisation was the key to economic growth

(ii) state must take lead to initiate the process of economic growth.

Based on Nehru-Mahalanobis strategy, importsubstitution industrialisation policy was followed in carrying out the programmes in a framework of five year/ annual plans.The state played the commanding role in a mixed economy. With the dominant role for the public sector , the system of controls, licensing and permits operated for three and half decades (from 1950- 1990). The year 1991 marked an important landmark replacing Nehru-Mahalanobis strategy by comprehensive macro-economic reforms envisaging reduction of the role of state, dismantling controls, and opening up of the economy to foreign trade, insurance and finance. The long term objective of economic development namely elimination of structural poverty became subservient to the process of economic liberalisation. Unemployment and inequality have remained unsolved after both the major shifts in economic policy in independent India.

1.9 KEY WORDS

Political Economy : An approach to the study of the economy that emphasised institutions and social classes that surround markets. The state and its policies are an integral part of the study.

Development : The process of societal transformation that accompanies economic growth. It includes an expansion of freedoms of individuals.

Planning : A system of directing investments to meet socio-economic objectives of long-term economic growth and equity.

Import Substitution : A process of industrialisation that deliberately promotes industries whose products can otherwise be imported instead. Import of those products is discouraged to protect such 'infant' industries. The objective is to achieve self-sufficiency in basic goods.

1.10 QUESTIONS FOR REVIEW

1. To know about the Political Economy: Concept
2. To know the Development: Concept
3. To know Underdevelopment at the Time of Independence
4. To know the Development Thinking
5. To discuss the Development Planning
6. To know about The Regime of Economic Liberalisation

1.11 SUGGESTED READINGS AND REFERENCES

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1.12 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress 1

1) See Section 1.2
2) See Section 1.3
3) See Section 1.4

Check Your Progress 2

1) i) Industrialisation is the key to economic growth.
   ii) State must play dominant role in initiating the process of economic growth.

2) See Section 1.4
3) See Section 1.6
4) See Section 1.6

Check Your Progress 3

1) i) Stabilisation ii) Structural adjustment
2) See Section 1.7
3) See Section 1.7

UNIT 2: EVOLUTION OF POLITICAL ECONOMY

STRUCTURE

2.0 OBJECTIVES

After this unit, we can able to know:

- To know introduction: Evolution of the Concept
- To discuss the Development as Modernization
- To know Development as Underdevelopment and Dependency
- To know World System Analysis
- To know the Articulation of Modes of Production Approach
- To discuss Class Analysis and Political Regimes
- To know State Centred Approach
- To know Globalisation and Neo-Liberal Approach

2.1 INTRODUCTION

Comparative politics seeks to study relationships among countries. It seeks also to find explanations for specific social and political phenomenon in these relationships. The political economy approach to the study of comparative politics is one way of looking at this relationship. It proposes that there exists a relationship between politics and economics and that this relationship works and makes itself manifest in several ways. It is the understanding of this relationship. and the manner in which it unfolds, which subscribes to this approach maintain, provides the clue to the study of relationships between and explanations of social and political phenomena. After reading this unit, you will be able to: understand various attributes of political economy as a concept; learn how the concept has become relevant for the study of comparative politics; and know historically, putting into context the various ways in which the political economy approach has formed the basis of studying relationship between countries and social and political phenomena over the past years.

2.2 INTRODUCTION: EVOLUTION OF THE CONCEPT

Political economy refers to a specific way of understanding social and political Phenomena whereby, economics and politics are not seen as separate domains. It is premised (a) on a relationship between the two and (b) the assumption that this relationship unfolds in multifarious ways. These assumptions constitute important explanatory and analytical frameworks within which social and political phenomena can be studied. Having said this, it is important to point out that whereas the concept of political economy points at a relationship, there is no single meaning which can be attributed-to the concept. The specific meaning the concept assumes depends on the theoretical ideological tradition. e.g., liberal or Marxist, within which it is placed, and depending on this positioning, the specific manner in which economics and politics themselves are understood. Interestingly, the appearance of economics and politics as separate domains is itself a modern phenomenon. From the time of Aristotle till the middle ages, the concept of economics as a self-regulating separate sphere was unknown. The word 'economy' dates back to Aristotle and signified in Greek 'the art of Approaches household management'. It is derived from the Greek oikos meaning a house, and nomosneaning law. As the political evolution in Greece followed the sequence: household- village- city state, the study of the management of the household came under the study of 'politics', and Aristotle considered economic questions in the very first book of the Politics. Among the classical political economist, Adam Smith considered political economy as 'a branch of the science of a statesman or legislator'. As far as the Marxist position is concerned, Marx (1818-1883) himself generally spoke not of 'political economy' as such but of the 'critique of political economy,' where the expression was used mainly with reference to the classical writers. Marx never defined political economy, but Engels did. Political economy, according to the latter, studies 'the laws governing the production and excliange of the material means of subsistence' (Marx - Engels, Anti-Duhring). The Soviet econoinic theorist and historian. Rubin suggested the followi~ig definition of political economy: 'Political economy deals with human working activity, not from the standpoint of its technical methods and instruments of labour, but from the standpoint of its social form. It deals with production relations wliicli are established among people in the process of production'. (I.I.Rubin, Essuys on Marx's Theory of Vtrlue, Black & Red, Detroit, 1928, 1972 reprint, P.X). In terms of this definition, political economy is not the study of prices or of scarce resources, it is rather, a stitdy of culture seeking answers to the questions, why the productive forces of society develop within a particular social form, why the ~iiacliine process unfolds within the context of business enterprise, and why industrialization takes the form of capitalist development. Political economy, in short, asks how the working activity of people is regulated in a specific, historical form of economy. In the years after decolonisation set in, the understanding of relationships between nations, and specific political and social phenomena, was informed by various approaches, viz., institution, political sociology and political economy. These were geared primarily towards examining the manner in which social values were transmitted and also the structures through which resources were distributed. All these would eventually form the bases or standards along which different, countries and cultures could be classified on a hierarchical scale of development, and could actually be seen as moving along a trajectory of development and change. Several theories were advanced as frameworks within which this change could be understood. Among these was the modernisation theory, which emerged in the historical context of the end of Japanese and European ellipsis’s and the beginning of the cold war.

Check Your Progress 1

Note: i) Use the space given below for your answers.
ii) Check your progress with the model answer given at the end of the unit.

1) What do you understand by the political economy approach to the study of comparative politics?

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2.3 DEVELOPMENTS AS MODERNIZATION

The theory of modernisation was an attempt by mainly First world scholars to explain the social reality of the 'new states' of the third world. Modernisation theory is based upon separation or dualism between 'traditional' and 'modern' societies. The distinction between 'traditional' and 'modern' societies was derived from Max Weber via Talcott Parsons. A society in which most relationships were 'particularistic' rather than 'universalistic' (e.g. based on ties to particular people, such as kin, rather than on general criteria designating whole classes of persons) in which birth ('ascription') rather than 'achievement' was the general ground for holding a job or an office; in which feelings rather than objectivity governed relationships of all sorts (the distinctions between 'affectivity' and 'neutrality'); and in which roles were not clearly separated - for instance, the royal household was also the .state apparatus ('role diffuseness' vs. 'role specificity'), was called 'traditional'. A 'modern' society, on the other hand, was characterized by the opposite of all these. Other features generally seen as characteristic of traditional societies included things like a low level of division of I labour, dependence on agriculture, low rates of growth of production. largely local networks of exchange and restricted administrative competency. Again modern I societies were seen as displaying the opposite features. Following from this I 'opposition' of the two categories, 'modernisation' referred to the process of transition from traditional to modern principles of social organisation. This process of transition was not only seen as actually occurring in the newly independent countries of Asia, Africa and Latin America, the attainment of a modern society as it existed in the West, was seen as their strategic goal. A modern society was defined as a social system based on achievement, universalism and individualism, as a world of social mobility, equal opportunity, the rule of law and individual freedom. This was contrasted with traditional societies, based on ascribed status, hierarchy and personalised social relations. The purpose of modernisation theory was to explain, and pronzote, the transition from traditional to modern society. Modernisation theory argued that this transition should be regarded as a process of traditional societies 'catching up' with the modern world. 'The theory of modernisation was most clearly elaborated in the writings of W.W.Rostow (The Stages of Economic Growth: A Non-Communist Manifest4 Cam bridge University Press, Cambridge, 1960), who argued that there were five stages of development through which all societies passed. These were: (i) the traditional stage; (ii) the preconditions for takeoff; (iii) take off; (iv) the drive toward maturity and (v) high mass consumption. Third World societies were regarded as traditional, and so needed to develop to the second stage, and thus establish the preconditions for take-off. Rostow described these preconditions as the development of trade, the beginnings of rational, scientific ideas, and the emergence of an elite that invests rather than squanders its wealth. The theory argued that this process could be speeded up by the encouragement and diffusion of Western investment and ideas. Scholars in this tradition also argued that industrialisation would promote westkrn ideas of individualism, equality of opportunity and shared values, which in turn would reduce social unrest and class conflict. As we have mentioned earlier modernisation theory developed in the context of cold war and at times it is unclear whether (a) modernisation theory was an analytical or prescriptive device, (b) whether modernisation was actually occurring or whether it should occur and (c) whether the motives of those promoting modernisation was to relieve poverty or to provide a bulwark against communism?

The two factors are obviously connected, but the subtitle of Rostow's book - 'a non-coniniunist manifesto' - suggests that the latter may have been considered more important than the former. To conclude, we can say that modernization theory was based on an evolutionary model of development, whereby all nation-states passed through broadly similar stages of development. In the context of the post-war world, it was considered imperative that the modern West should help to promote the transition to modernity in the traditional Third World.

Check Your Progress 2

Note: i) Use the space given below for your answers.

ii) Check your progress with the model answer given at the end of the unit.

1) What kind of development path did modernization theory suggest for the 'new states' of the third world?

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2.4 DEVELOPMENTS AS UNDERDEVELOPMENT AND DEPENDENCY

Dependency theory arose in the late fifties and the sixties as an extended critique of the modernisation perspective. This school of thought is mainly associated with the work of Andre Gunder Frank, but the influence of Paul Baran's (The Political ECOIIQIII~ of Growth, Monthly Review Press, 1957) work is also very important. Baran argued that the economic relationships that existed between western Europe (and later Japan and United States) and the rest of the world were based on conflict and exploitation. 'The former took part in 'outright plunder or in plunder thinly veiled as trade, seizing and removing tremendous .wealth from the place of their penetration' (Baran 1957: Pp.141-2). The result was transfer of wealth from the latter to the former. Frank examined Third World countries at close hand, and criticised the dualist thesis (see in the above section), which isolated 'modern' and 'traditional' states, and argued that the two were closely linked (Capitalism and Underdevelopment in Latin America, Monthly Review Press, 1969; Latin America: Underdevelopment or Revolution?, Monthly Review Press, New York, 1969). He applied his critique to both modernisation theory and orthodox Marxism, replacing their dualism by a theory that argued that the world has been capitalist since the sixteenth century, with all sectors drawn into the world system based on production for market. The ties of dominance and dependence, Frank argues, run in a chain-like fashion throughout the global capitalist system, with rnetropoles appropriating surplus from satellites, their towns removing surplus from the hinterland and likewise. Frank's central argument is that creation of 'First' world (advanced capitalist societies) and the 'Third' world (satellites) is a result of the same process (worldwide capitalist expansion). According to the dependency perspective the contemporary developed capitalist countries (metropoles) were never underdeveloped as the Third world (satellites), but were rather undeveloped.

Underdevelopment, instead of being caused by the peculiar socio-economic structures of the Third World countries, is the historical product of the relations (relations of imperialism and colonialism) which have obtained between underdeveloped satellites and developed metropolis. In short, development and underdevelopment are two sides of the same coin, two poles of the same process - capitalist development on a world scale creates the 'development of underdevelopment' in the Third world. According to Frank, Latin America's most backward areas (e.g., Northeaster~i Brazil) were precisely those areas which had once been most strongly linked to the metropole. Institutions such as plantation is and haciendas, regardless of their internal appearance, have since the conquest been capitalist forms of production linked to the metropolitan market. Economic development, according to Frank, was experienced in Latin America only in those times when the nietropolita~i linkages were weakened - the Napoleonic Wars, the depression of the 1930s and the two World Wars of the twentieth century - and it canie to an end precisely as the rnetropoles recovered from these disruptions and recovered their links to the Third world. Dependency theory was indeed a powerful advance over modernisation theory, but it suffered from peculiar weaknesses of its own. First of all, it suffered from a certain Historical character, viewing change within the Third world countries as an outcome of its u~idifferentiated dependent status. As Colin Leys put it, dependency theory "...co~icentrates on what happens to the underdeveloped countries at the hand of iniperialisni and colonialism, rather than on the total liistorical process involved, including the various forties of struggle against imperialism and colonialism wliicli grow out of the conditions of underdevelopment." (Colin Leys, Underdevelopmei~t in Keiya, Berkeley, University of California Press, 1975, p.20). Secondly, dependency theory tends to be economistic. Social classes, states and politics appear as derivatives of economic forces and meclianisms and often receive very little attention. Classes, class projects and class struggles appear neither as the prime movers of liistorical change nor the prime foci of analytic attention. Thirdly, critics liave alleged that the concept of development is obscure in dependency theory. Given that it is frequently argued that 'development' occurs in the Third world when the metropolitan satellite linkages are weakened, does 'development' imply autarchy? Since 'development' is an attribute of capitalist development in the metropoles, is the debate in the ultimate analysis again about the Third world's ability to replicate this path? Finally, the assumptions of the dependency theory, fail to provide explanations for the various so-called 'economic miracles' of the Third world? Thus, while marking an advance beyond the myths of modernisation, dependency theory did not fully escape its imprint. While modernisation theory argued that 'diffusion' brought growth, dependency theory would seem to argue in a similar vein that dependence brooklet stagnation.

2.5 WORLD SYSTEM ANALYSIS

Immanuel Wallerstein further developed the idea of world capitalist economy in his 'world system analysis' (Immanuel Wallerstein, The Modern World System, 2 Vols. Academic Press, New York, 1974, 1980, covers up to 1750). Wallerstein argued that the expansion of Europe staring in the sixteenth century signaled the end of pre-capitalist modes of Production in those areas of the Third World incorporated within the world capitalist market. According to this theory, dualism or feudalism does not exist in the Third World. The modern world system is itinerary in that it is synonymous with the capitalist mode of production, yet disparate in that it is divided into tiers - core, serni-periphery, and periphery - wliicli play functionally specific roles within the system as a whole. World system theory places a new emphasis on the multilateral relations of the system as a while (core-core and periphery-periphery relations become important to the analysis as do core-periphery ones), rather than on the unilateral relations of the Approaches system of metropole and satellite characteristic of dependency theory. Wallerstein's basic argument was that the creation of the world capitalist economy in the sixteenth century led to a new period of history, based on expanded accumulation rather than stagnant consumption. This was attributable to the emergence of three key factors: (i) an expansion of the geographical size of the world in question (through incorporation), (ii) the development of variegated methods of labour control for different products and different zones of the world economy (specialisation) and (iii) the creation of relatively strong state machineries in what would be the core states of this capitalist world econonly (to assure the transfer of surplus to the core). In the formatio~i of the world economy, core areas emerge as countries where the bourgeoisie got stronger and landlords weaker. The important relationship that determines whether a country is to be a core or part of periphery is dependent on the strength of its state. According to Wallerstein those countries that could achieve the process of 'statism', i.e., the concentration of power in the central authority, became the core countries of the world economy. On the other hand, the strength of the state machineries is explained 'in terms of the structural role a country plays in the world economy at that moment of time'. A strong state enables the country as an entity to get a disproportionate share of the surplus of the entire world economy. The stability of the world capitalist system is maintained due to three factors: (i) the concentration of military strengtll in the liands of the dominant forces, (ii) pervasiveness of an ideological commitment to the systeln as a whole and (iii) the division of the majority into a large lower stratum and a smaller middle stratum. 'l'he existence of the semi-periphery means because the middle stratLltii (semi-peripllery) is both the exploited and the 1 that the upper strata (core) is not faced with the unified oppositio~l of all others \ exploiter. The semi-periphery, however, also constitutes a site for change. New core states can emerge from the semi-periphery, and it is a destination for the declining ones. The world system theory has been widely criticised for its primary focus on the 'system imperative'. Thus in this theory, all events, processes, group-identities, class and state projects are explained by reference to the system as a whole. The implication of such a reference point is that all the above actors are seen as embedded within the system so much so that they do not act in their immediate concrete interests but always in accordance with the prescriptions or dictates of the system. Critics have also pointed out that the theory explains the contemporary capitalist world inadequately, since it focusses attention on the market, failing to take into account the processes of production.

Check Your Progress 3

Note: i) Use the space given below for your answers.

ii) Check your progress with the model answer given at the end of the unit.

1) What is meant by underdevelopment? What kind of relationship exists between First world and the Third world countries according to dependency theory?

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2) What do you understand by the concept of world system? How are different parts of world interconnected according to the world system perspective?

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2.6 ARTICULATION OF MODES OF PRODUCTION APPROACH

From the late 1960s an attempt was made to resurrect a certain variant of Marxian approach to the transition process in the Third world in which mode of production was the determining concept. Theorists belonging to this school of development argued that Third world social formations encompass several modes of production and capitalism both dominates and articulates with pre-capitalist modes of production. These theorists made a distinction between social formation and mode of production. Social formation refers to a combination of economic, political and ideological practices or 'levels'. Mode of production refers to the economic level that determines whicli of the different levels is dominant in the 'structured totality' that constitutes the social formation. The economic level sets lirnjt on the other levels, that carry out functions which necessarily reproduce the (economic) mode of production. These non-economic levels therefore enjoy only a relative autonomy from the mode of production. The mode of production or 'economic' level is in turn, defined by its 'relations of production', i.e., the direct relation between the immediate producer of the surplus and its immediate appropriator. Each couplet, slave-master, serf-lord, free labourer-capitalist define a separate mode. The mode of production perspective, takes as its point of departure the production of the surplus product and is able, therefore to move to an explanation of the division of the world between core arid peripheries based on the modes of production rather than trade relations. The core therefore coincides with the capitalist regions of the world, which are largely based on free wage labour. The periphery on the other hand, was incorporated into the world economy on the basis of free relations of production (that is, non-capitalist modes of production), which prevented an unprecedented accumulation of capital. Unequal trade relations were therefore a reflection of unequal relations of production. It is for these reasons that the 'advanced' capitalist countries were able to dominate other areas of the world where non-capitalist modes of production existed. On the face of it, mode of production perspective appears to constitute at least a partial return to the sectorial (modern and traditional) analysis of modernisation theory. The crucial difference, however, is that unlike dualist interpretations, the emphasis here is on the interrelatedness of modes of production. It is argued that the capitalist expansion of the West in the sixteenth century, encountered pre-capitalist modes of production in the Third World which it did not or could not totally transform or obliterate, but rather which it simultaneously coil served or destroyed. The relationship between capitalist mode of production and the pre capitalist modes of production, however, has not remained static and capitalist relations of production have emerged in the periphery. Capitalism in the periphery is of a-specific kind, one that is qualitatively different from its form in core countries. The marked feature of capitalism in the periphery is its combination with non-capitalist modes of production - in other words, capitalism coexists, or 'articulates', with non-capitalist modes. Non-capitalist production may be restructured by imperialist (that is, 'core-capitalist') penetration but it is also Approaches subordinated by its very 'conservation'. The modes of production theory are, however, weakened by a functionalist methodological approach. This is because the theory explains social change as a product of the necessary logic of capitalism. This results in circular reasoning. If pre-capitalist modes of production survive then that is evidence of its functionality for capitalism and if pre-capitalist modes broke down then, that too is evidence of capitalism's functional requirement. This approach has also been criticized on the grounds that it subordinates human agency to structure, and assumes that social phenomena are explained by their functionality for capitalism, rather than by actions and struggles of human beings themselves.

2.7 CLASS ANALYSIS AND POLITICAL REGIMES

In the early 1970s yet another approach to explain the socio-political changes taking place in the Third world countries emerged from Marxist scholars. Prominent contributions came from Colin Leys (Underdevelopment in Kenya, University of California Press, Berkeley, 1975) and James Petras (Critical Perspectives on Social Classes in the Third World, Monthly Review Press, New York, 1978) who explained the transition process in the developing world not in term of world imperatives or articulation of modes of production, but in terms of classes as the prime movers of history. The focus here is not on development, i.e., growth, versus stagnation. The key question which surfaces in and Leys work is: development for whom? Petras differs from the 'external' relations of world system analysis and the 'internal' relations of modes of production analysis. The salient feature of Third World societies, according to him, is precisely the manner in which external and internal class structure cross one another and the various combinations of class symbiosis, and interlock. Capitalist expansion on the world scale has engendered the existence of collaborative strata in Third World which not only orient production outwardly but also exploit internally. Decolonization gave these strata access to the instrumentality of the indigenous state and the choice of several developmental strategies based on different internal and external class alliances. In order to explain different patterns of development strategies, Petras examines (a) the conditions under which accumulation lakes place, which includes: (i) the nature of state (and state policy), (ii) class relations (process of surplus extraction, intensity of exploitation, level of class struggle, concentration of work force), and (b) the impact of capital accumulation on class structure, which includes understanding: (i) class formation/conversion (small proprietors to proletarians or kulaks, landlords to merchants, merchant to industrialist etc., (ii) income distribution (concentration, redistribution, reconcentration of income), and (iii) social relations: labour market relations ('free' wage, trade union bargaining), semi-coercive (market and political/social controls), coercive (slave, debt peonage). Broadly speaking Petras suggests that post-independence national regimes in the developing world can choose among three strategies or types of class alliances for capital accumulation. First, there is the neocolonirrl strategy wherein the national reglime participates with the core bourgeoisie in exploiting the indigenous labour force. Wealtli and power under the neo-colonial regime is concentrated in the hands of foreign capital. Secondly, the national regime may undertake a national developmental strategy based on exploitation of the indigenous labour force and the limitation or elimination of the share going to imperial firms. In terlns of the pattern of income distribution the major sliare goes to the intermediate strata (in the form of the governing elite of the periphery). Thirdly, the regime may ally with the indigenous labour force, nationalise foreign or even indigenous enterprise, redistribute income, and generally undertake a national populist strategy as against core capital. Income distribution is more diversified, spreading downward. Although we cannot go into the details over here, Petras has much to say about the interrelations among these strategies and the role of the imperial state in slowing up neo-colonial regimes and undermining the others.

2.8 STATE CENTRED APPROACH

In the field of comparative political economy a backlash took place against developmentalist in the late 1960s and the early 1970s while concept of state and power were revived. 'The contributions to the theory of state come preliminary from Marxist scholarships. In Marx, Engels and Lenin the concept of state is premised on its relationship with the existing class divisions in society. It is the nature of this relationship, however, which has remained a matter of debate among Marxists. One tradition, prevalent in the United States of America (USA), emanated from community studies that identified power along the lines of position and reputation, is associated with works of G.W.Domhoff (Who Rules America), Prentice Hal I, New Jersey, 1967; The Higher Circles, Rand0111 House, New York, 1970; Who Really Rules?, Goodyear Publishing, Santa Monica, California, 1978; The Powers That Be, Random House, New York, 1979). Domlloff s maill thesis is that there not only exists an upper class (corporate bourgeoisie) in USA, but also that this class, is a governing class. Domlloff s contributions have been seen as a part of industrial tradition within Marxism in which state is seen as an instrument of the ruling or dominant class. This perspective is guided from Marx and Engels's concern expressed in The Communist Manifesto that the executive of the state "is but a committee for managing the common affairs of the whole bourgeoisie". A careful reading of Domhoff s works, however, suggests that he does not subscribe to the industrialist viewpoint and the state in USA is seen as representing the interests of the corporate class while at the same time opposing the interests of individual capitals or fractions of the business elite. A second tradition revolved around what has been described as the structuralism ' view of the state and is found in the writings of French Marxists, notably Nicos Poulantzas. Poulantzas in his early work (Political Power a11d Social Classes, New Left Books, London) argued that functions of the state in capitalisnt are broadly determined by the structures of the society rather than by the people who occupy positions of the state. The state operates in a 'relatively autonomous' manner to counteract the combined threats of working class unity and capitalist disunity in order to reproduce capitalist structure. Poulantzas in his later work (State, Power and Socialism, New Left Books, Verso edition, London, 1980) argues that the capitalist slate itself is an arena of class conflict and that whereas the state is shaped by social-class relations, it is also contested and is therefore the product of class struggle within state. Politics is not simply the organization of class power through the state by dominant capitalist class, and the use of that power to manipulate and repress ordinate groups, it is also the site, of organ ised conflict by mass social movementsto influence state policies, and gain control of state apparatuses. An interesting debate on the state theory in the West figured in the pages of New Left Review in 1969-70, in the form of an excllalge between Ralpll Miliba~ld a:ld Poulantzas. As Poulantza's view has already been discussed above, we shall briefly examine now the contribution of Ralpll Miliband. The debate in New Left Review centered around Miliband's book The State in Capitalist Sociey: An Analysis of the Western Systern of Power (Basic Books, New York, 1969) in , which he argued that while the state may act in Marxist terms, on behalf of the ruling class, it does not act at its behest. The state is a class state, but it rnust ..\pprorchcs have a high degree of uutortoi~y and independence if it is to act as a class state. 'The key argilrnent in Miliband's work is that state may act in the interests of capitalist, but not always at their command. While the above mentioned debates focussed primarily on the nature of state in Western capitalist societies, a lively contribution to the debate on the nature of state in the developing world followed. Hamza Alavi ('The State in Post-Colonial Societies: Pakistan and Bangladesh', New Lefr Review, No.72, 1972) characterises the post-colonial state in Pakistan and Bangladesh as 'overdeveloped' (as it was creation af metropolitan powers lacking indigenous support) which remained relatively autonomous from the dominant classes. The state co~~trolled by 'bureaucratic military oligarchy' mediates between the competing interests of three propertied classes, na~nely the inetropolitan bourgeoisie, the indigenous bourgeoisie and the landed classes, while at the same time acting on behalf of them all to preserve the social order in which their interests are embedded, namely the institutions of private property and the capitalist node as the dominant mode of production. This theme of relative autonomy was later taken by PI-anab Bardhan (The Political Economy of Development, Basil BlackwelI, Oxford 1986) in his analysis of the Indian state, where state is relatively autonomous of the dominant coalition constituted by capitalist, landlords and professionals. State, however, in Bardhan's forlnulatior remains a prominent actor which exercises 'choice in goal formulation, agenda setting and policy execution'. The idea of overdeveloped postcolonial stgte and the concept of relative autonomy in the context of relationship between state and class in the context of African societies was carried in the work of John Saul ('The State in Post-Colonial Societies: Tanzania', The Socialist Register, London, 1974). Another perspective came in the work of Issa G.Shivji (Class Struggle in Tanzania, New York, 1976), who argued that the personlel of the state apparatus themselves emerge as the domi~lant class as they develop a specific class interest of their own and transfornl themselves into 'bureaucratic bourgeoisie'. The debate on the nature and role of the state have continued in journals like .Review of Africun Polificul ECOIZONI~, .Jotmral of Co11fe11lpomry Asiu, Latilt A~nerican Perspective and the annual volunles of Socidist

Register in light of changes taking place in the forms of economy, social classes and political forces.

Check Your Progress 4

Note: i) Use the space given below for your answers.

ii) Check your progress with the model answer given at the end of the unit.

1) What is meant by mode of production? What is the nature of socio-economic, reality in the Third world according to the articulation of mode of production theory?

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2) The state centered approach revived the concept of state and power in the study of comparative politics. Discuss.

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2.9 GLOBALISATION AND NEO-LIBERAL APPROACH

In the context of globalisation, the 'neoliberal' nod ern is at ion approach has emerged as a dominant paradigm giving explanations for and prescribing remedies for underdevelopment in peripheral states. The neoliberal paradigm proposes that the underdevelopment of peripheral states of the 'Third World is primarily because of the failure of state-led development strategies particularly import-substitution industrialisation. It believes that these countries can, however, develop and obtain competitive advantage in an open world econolny by rolling back state-control. At the heart of the neoliberal perspective lies thus the notion of 'separation' or dichotomy between the state and the market. The paradigm limits the role of the state to providing 'enabling' conditions of 'good governance' in which market forces can flourish unhindered. This enabling role involves the preservation of law and order, the guarantee of private property and contract, and the provision of 'public goods'. Criticising this assumption of a natural dichotomy between the state and market, Ray Kiely (Sociology and Developntent: The lmpasse and Beyond, UCL Press, London, 1995, p. 128) points out that the separation between the two cannot be taken as natural but historically and socially constituted. The appearance of separate political and economic spaces, he policies out, is unique to the capitalist social relations which emerged in England and cannot therefore be generalised to the rest of 'advanced' capitalist world nor to the developing world. international institutions like the World Bank aid IMF have, however, proceeded to implement this ahistorical neoliberal model onto the developing world, with its accompanying prescription is regarding structural adjustment and 'good governance'. The World Bank, for example, asserts that the economic problems of the developing world can be attributed to 'too much government' and a subsequent failure of market forces to operate freely. The proposed remedy is therefore, the encouragement of the private sector and the liberalisation of 'national economies'. In order to achieve these objectives, three key policy proposals are recommended:

(i) currency devaluation,
(ii) limited government and incentives to the private sector and,
(iii) the liberalisation of international trade.

These structural adjustment programmes, however, overlook the socio-economic realities of specific countries and the role played by the state in providing social justice. The withdrawal of the state from this role, so as to unfetter market forces, means that the state is no longer expected to play a role in balancing unequal resources. This then leads to an increase in the vul~ierability of the weaker sections, particularly women andlof the working class, deepening already existing hierarchies within countries. Similarly, the notion of 'good governance' within the neoliberal agenda of international aid giving institutions, as providing the enabling condition is within which market forces can flourish, has been viewed within skepticism. Kiley, for example, points out that the World Bank's explanations of the failure of structural adjustment programmes in

Sub Saharan Africa, as lack of good governance, fails to specify how 'public accountability', 'pluralism' and the 'rule of law', all of which are cited by the World Bank (Governance and Development, World Development, Washington, DC, 1992) as important constituents of good governance, can be achieved without the participation of the lower classes of society. The concept of good governance within the neoliberal agenda, envisages a condition where democracy and freedom are seen as antagonistic. Freedom involves preservation of private property, free market, and provision of negative freedoms like the right to speech, associate and move freely, conditions, in other words, which preserve market economy. Democracy, on the other hand, is seen with suspensor, as belonging to the political realm where demands for participation and distribution of resources are made. The latter, it is feared endanger, the freedoms essential for the strength of the economic realm. The prioritization of .4pproacLes freedom over democracy, as prescribed by the neoliberal paradigm, fails thus to meet the developmental needs of the people.

Check Your Progress 5

Note : i) Use the space given below for your answers.

ii) Check your answer with the model answers given at the end of the unit.

1) What are the key elements of the neo-liberal approach?

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2.10 LET US SUM UP

The political economy approach emerged in the wake of decolonization to understand and explain the relationship among nations and socio-political phenomena. At the basis of this approach was the assumption of a relationship between the domains of politics and economics. The modernization, under development and dependency, world systems, articulation of the modes of production, class analysis, state-centred analysis and the neoliberal analysis are dominant among the various explanatory frameworks which have emerged in the last few decades. While, the analytical tools of all these frameworks have varied, almost all have 'development' as their key problem the process of exploring this problem within a comparative perspective, they have, inevitably seen the world in terms of a liberalized whole. They do, however, provide important insights into the intricacies of economic forces and the planner in a symbolisms of economy and polity works within and in connection with extenla1 forces.

2.11 KEY WORDS

Globalisation: A process of bringing world together in terms of economic and social interactions of countries and people. In other words the world is supposed to be a global society with global issues and problems which are to be tackled with global efforts and cooperation.

Class State: A state that works to protect the interests of a particular class. In Marxian terminology it is used to describe the present liberal states as protecting the interests of capitalist class.

Structural Adjustments: Reforms in Economics like currency devaluation, incentives to private sector, liberalisation of international trade etc.

Third World: States which emerged independent after Second World as a process of decolonizationand economically and industrially non-developed.

2.12 QUESTIONS FOR REVIEW

1) What do you understand by the political economy approach to the study of comparative politics?
2) What kind of development path did modernization theory suggest for the 'new states' of the third world?
3) What is meant by underdevelopment? What kind of relationship exists between First world and the Third world countries according to dependency theory?

4) What do you understand by the concept of world system? How are different parts of world interconnected according to the world system perspective?
5) What is meant by mode of production? What is the nature of socio-economic, reality in the Third world according to the articulation of mode of production theory?
6) The state centred approach revived the concept of state and power in the study of comparative politics. Discuss.

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2.14 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress 1

1) Political Economy Approach is promised on the assumption that politics and 1 economy are interrelated. To uliderstatid political processes it is liecessary to , look that in eco~ioniic co~itexts like means of production and pmduction , relations.

Check Your Progress 2

1) Purpose of modernization is process of traditional societies catcliirig up with the ~iioder~i world. The steps suggested for that are :

i). Traditional stage

ii) the precoliditions for take off;

iii)take off;

iv) the drive towards maturity and

v) high mass consumption. For elaboration see section 2.2.

Check Your Progress 3

1) See Section 2.3
2) See Section 2.4

Check Your Progress 4

1) Mode of Production means how in a society goods are produced and distributed. It also refers to the economic level which determines which of the different levels is dominant in the structured totality that colatitudes the social formation. In the third world countries generally pre-capitalist mode coexists with the capitalist mode of production.
2) See Section 2.7

Check Your Progress 5

1) Neo-liberal approach is based on the study and evaluation of concepts like good governance, structural adjustments, withdrawal of the State, globalization etc.

UNIT 3: CLASSICAL POLITICAL ECONOMY (SMITH, RICARDO)

STRUCTURE

3.0 OBJECTIVES

After this unit, we can able to know:

- To know about Classical Political Economy
- To discuss the Political economy, economics, sociology
- To discuss the Smith
- To know what Ricardo talks about.

3.1 INTRODUCTION

Karl Marx coined the concept of "classical political economy" in A Contribution to the Critique of Political Economy. He related it to the works of William Petty in Britain and Piere Le Pesant de Boisguilbert in France in the seventeenth century up until to the works of David Ricardo in Britain and Simonde de Sismondi in France at the beginning of the nineteenth century (see Marx [1859] 1970: 52). In his Theories of Surplus Value Marx referred to the classical political economists as including the Physiocrats, Adam Smith and Ricardo, who sought "to grasp the inner connection of the phenomena" under consideration ([1861-3] 1988: 358). In volume I of Capital he contrasted classical political economy and "vulgar economy", which is said to deal with "appearances only" (Marx [1867] 1954: 85 n.). Marx called Ricardo "the last great representative" of classical political economy, a view Joseph A. Schumpeter ([1912] 1954: 62-7) explicitly shared. Prominent authors including John R. McCulloch and John Stuart Mill, often regarded as main representatives of British classical political economy, Marx saw to be part of its decline. Marx's concept was not generally accepted. Interpreters from Edwin Cannan (1893) to Mark Blaug (1987, 2008) and Denis O'Brien (1975, 2004) saw "classical political economy" to refer to pre-marginalist analysis in the period roughly from the mid eighteenth to the mid nineteenth century.1 In this view it was an early and rude version of demand-andsupply analysis, with the focus on production and the supply side and consumption and the demand side still in their infancy. The alleged "shortcoming" involved was overcome, it was contended, by the development of marginal utility theory in the second half of the nineteenth century. The idea underlying this perspective was that as a scientific subject the discipline progressed from its early beginnings to its modern constructions, involving the elaboration of ever more sophisticated, rich and coherent versions of demand-and-supply theory. In this view there was only a single kind of economic analysis – demand-and-supply theory – which provided us with a more and more thorough and correct understanding of the economic phenomena under consideration. However, as we shall see, this view cannot be sustained. Classical and marginalist economics differ in important respects – the former is not simply an early and rude precursor of the latter.

Clearly, demand and supply play some role in every kind of economic analysis, classical, marginalist, Marxist, Austrian or other. The question is: precisely which role? We shall see that in this regard there are fundamental differences between the classical authors and the marginalists. (See on this Kurz (2016: chaps 2 and 4).) These differences have their roots in fundamentally different methodological outlooks on the subject. Most importantly, the classical economists took the socio-economic system as they found it, stratified in social classes – workers, landowners and capitalists – who perform different roles in the process of the production, distribution and use of commodities and the wealth of a nation. In the tradition of Aristotle's zoon politicon (ζώον πολιτικόν), individuals are seen as social beings whose motivations, aspirations, capabilities and so on are largely shaped by society or the milieu from which they come. Another characteristic feature of the classical authors is their objectivist point of view. This was most effectively expressed by William Petty, who advocated a "physician's outlook" on economic problems and decided to express himself "in terms of Number, Weight, or Measure ... and to consider only such Cases, as have visible Foundations in Nature, leaving those that depend upon the mutable Minds, Opinions, Appetites, and Passions of particular Men, to the Consideration of others." Interestingly, the alternative he described fits rather well marginal utility theory and thus an important pillar of marginalism (the other one being marginal productivity theory). In a similar vein, James Mill, a friend of Ricardo (and the father of John Stuart Mill), put forward the remarkable proposition: "The agents of production are the commodities themselves ... They are the food of the labourer, the tools and the machines with which he works, and the raw materials which he works upon" (Mill 1926: 165). Production, these authors insisted, is a process of "productive consumption," in which various commodities (means of production and means of subsistence of workers) have necessarily to be "destroyed," in order to get some other commodities, and the amounts that have to be destroyed reflect the "difficulty" of getting them.

The focus of attention in classical political economy is on the coordination of economic activities via interdependent markets within a system of the social division of labour. Which conditions have to be met for an economy in order to reproduce itself, when will it develop and grow, when stagnate or shrink? The issues of socio-economic reproduction and development assume centre stage in the analysis. The approach is systemic and general – it looks at the economy as a whole and its interrelated parts and seeks to understand its "law of motion" (Karl Marx). The main problem dealt with is the dynamic behaviour of the system: an investigation of its static properties is only a step towards this goal. Important elements in this colossal painting of socio-economic life are the following: the factors affecting the pace at which capital accumulates; the determinants of the growth of population; the impact of technical change triggered by competitive conditions on economic growth and income distribution; the role of the scarcity of renewable and the exhaustion of depletable resources in all this; the conflict over the distribution of income between workers and the propertied classes and between capitalists and landowners; the role of money and the banking sector in easing economic transactions, but also in endangering the stability of the system; foreign trade as an important channel to deepen the division of labour and raise labour productivity; and the means and ways government has to influence the course of things. In contrast, marginalist authors start from the behaviour of the needy individual.2 This leads to the elaboration of Robinsonades, contemplating the production and consumption of an isolated agent such as Robinson Crusoe (before he met Friday) in Daniel Defoe's novel with the same title. Marginalist economics, as Lionel Robbins (1932) put it, studies "human behavior as a relationship between ends and scarce means which have alternative uses." Homo oeconomicus, economic man, enters and soon completely occupies the stage. Marginalism endorses methodological individualism, which does not take society as we encounter it, but seeks to reconstruct it in terms of the interaction of self-seeking individuals. The perspective assumed revolves around the concept of the scarcity of goods and services and the options available to homo oeconomicus to make the best of it. Within this framework social relations may be relatively unimportant and economic interaction weak. Depending on the set of givens or data of the theory – preferences of agents, their initial endowments of goods and means of production and the set of technical alternatives from which they can choose to produce the various goods – an equilibrium may exist in which several agents (in the extreme: all of them) remain in a state of autarky and only a few (none) get involved in what a commentator once called "a little trading on the side." As can be shown, social cohesion vanishes entirely when one takes the spatial dimension of economic activity into account in the simplest case possible. Then the competitive price mechanism can explain neither the emergence of spatial economic concentration nor extensive trade streams. In fact, with constant returns to scale, economic activity will be evenly distributed across a homogeneous plain, carried out by autarkic units of production and consumption. There is no society in any meaningful sense. This paper is based analytically on the most advanced form of classical political economy represented by Sraffa (1951, 1960). Space limitations prevent me from providing a full exposition of its fascinating details and a comprehensive treatment of the subject matter. At the same time an attempt will be made to be faithful to what major classical authors actually wrote. This applies especially to Ricardo's writings, because we owe him important insights into the working of the economic system and corrections of the doctrine of Adam Smith. While a common core can be discerned in the economic analyses of the classical authors, which consists essentially in their explanation of all property incomes (rents, profits and interest) in terms of the surplus product that obtains for a given system of production in use and given real wages, differences between them can only be touched upon in passing. For a discussion of similarities and differences between them, see, inter alia, Garegnani (1984), Kurz and Salvadori (1995, 1998) and Kurz (2010, 2015, 2016).

3.2 CLASSICAL POLITICAL ECONOMY

Socio-economic classes

The classical economists distinguished between "three grand orders of men" or social classes – landlords, workers and capitalists. Interestingly, Smith classified them not only in terms of a single dimension: whether and which kind of property they possess – land and natural resources, labour power and industrial, commercial and financial capital. He also saw another dimension to be of great importance: social classes may be distinguished according their members' access to information and knowledge. Landlords, Smith wrote, receive revenue (rent) that "costs them neither labour nor care, but comes to them ... independent of any plan or project of their own." This makes them indolent and "renders them too often, not only ignorant, but incapable of that application of mind which is necessary in order to foresee and understand the consequences of any publick regulation" (WN I.xi.p.8). Things are worse with respect to the second order of people: the worker's "condition leaves him no time to receive the necessary information, and his education and habits are commonly such as to render him unfit to judge even though he was fully informed." The worker is most in danger of being manipulated: "In the publick deliberation, therefore, his voice is little heard and less regarded, except upon some particular occasions, when his clamour is animated, set on, and supported by his employers, not for his, but their own particular purposes" (WN I.xi.p.9; emphasis added). The people that are best informed in economic and political matters are merchants and master manufacturers, who "during their whole lives ... are engaged in plans and projects" and who therefore "have frequently more acuteness of understanding than the greater part of country gentlemen" (WN I.xi.p.10). These men, possessed of a "superior knowledge of their own interest," are on the one hand the source of economic development. Their selfishness may, however, be detrimental to the interests of the other classes and society at large, because they are keen "to narrow the competition [in order to raise] their profits above what they naturally would be, to levy, for their own benefit, an absurd tax upon the rest of their fellow-citizens." Smith added: The proposal of any new law or regulation of commerce which comes from this order, ought always to be listened to with great precaution, and ought never to be adopted till after having been long and carefully examined, not only with the most scrupulous, but with the most suspicious attention. It comes from an order of men, whose interest is never exactly the same with that of the publick, who have generally an interest to deceive and even to oppress the publick, and who accordingly have, upon many occasions, both deceived and oppressed it. (WN I.xi.p.10; emphasis added) Those who are better informed and capable of interpreting pieces of information may use their superior knowledge to the detriment of customers, consumers and, in general, workers: asymmetric information gives rise to moral hazard. Smith deplored the "wretched spirit of monopoly" (WN IV.ii.21) that never sleeps and seeks to reap extra profits, not by "improvements" of technology, that is, innovations, but by narrowing competition.

3.3 POLITICAL ECONOMY, ECONOMICS, SOCIOLOGY

Classical theories of growth and development

Analyzing the growth in the wealth of nations and advocating policies to promote such growth was a major focus of most classical economists. However, John Stuart Mill believed that a future stationary state of a constant population size and a constant stock of capital was both inevitable, necessary and desirable for mankind to achieve. This is now known as a steady-state economy.

John Hicks & Samuel Hollander, Nicholas Kaldor, Luigi L. Pasinetti, and Paul A. Samuelson have presented formal models as part of their respective interpretations of classical political economy.

Value theory

Classical economists developed a theory of value, or price, to investigate economic dynamics. In political economics, value usually refers to the value of exchange, which is separate from the price. William Petty introduced a fundamental distinction between market price and natural price to facilitate the portrayal of regularities in prices. Market prices are jostled by many transient influences that are difficult to theorize about at any abstract level. Natural prices, according to Petty, Smith, and Ricardo, for example, capture systematic and persistent forces operating at a point in time. Market prices always tend toward natural prices in a process that Smith described as somewhat similar to gravitational attraction.

The theory of what determined natural prices varied within the Classical school. Petty tried to develop a par between land and labour and had what might be called a land-and-labour theory of value. Smith confined the labour theory of value to a mythical pre-capitalist past. Others may interpret Smith to have believed in value as derived from labour. He stated that natural prices were the sum of natural rates of wages, profits (including interest on capital and wages of superintendence) and rent. Ricardo also had what might be described as a cost of production theory of value. He criticized Smith for describing rent as price-determining, instead of price-determined, and saw the labour theory of value as a good approximation.

Some historians of economic thought, in

particular, Sraffian economists, see the classical theory of prices as determined from three givens:

1. The level of outputs at the level of Smith's "effectual demand",
2. technology, and
3. wages.

From these givens, one can rigorously derive a theory of value. But neither Ricardo nor Marx, the most rigorous investigators of the theory of value during the Classical period, developed this theory fully. Those who reconstruct the theory of value in this manner see the determinants of natural prices as being explained by the Classical economists from within the theory of economics, albeit at a lower level of abstraction. For example, the theory of wages was closely connected to the theory of population. The Classical economists took the theory of the determinants of the level and growth of population as part of Political Economy. Since then, the theory of population has been seen as part of Demography. In contrast to the Classical theory, the determinants of the neoclassical theory value:

1. tastes
2. technology, and
3. endowments

are seen as exogenous to neoclassical economics.

Classical economics tended to stress the benefits of trade. Its theory of value was largely displaced by marginalist schools of thought which sees "use value" as deriving from the marginal utility that consumers finds in a good, and "exchange value" (i.e. natural price) as determined by the marginal opportunity- or disutility-cost of the inputs that make up the product. Ironically, considering the attachment of many classical economists to the free market, the largest school of economic thought that still adheres to classical form is the Marxian school.

Monetary theory

British classical economists in the 19th century had a well-developed controversy between the Banking and the Currency School. This parallels recent debates between proponents of the theory of endogeneous money, such as Nicholas Kaldor, and monetarists, such as Milton Friedman. Monetarists and members of the currency school argued that banks can and should control the supply of money. According to their theories, inflation is caused by banks issuing an excessive supply of money. According to proponents of the theory of endogenous money, the supply of money automatically adjusts to the demand, and banks can only control the terms and conditions (e.g., the rate of interest) on which loans are made.

Debates on the definition

The theory of value is currently a contested subject. One issue is whether classical economics is a forerunner of neoclassical economics or a school of thought that had a distinct theory of value, distribution, and growth.

The period 1830–75 is a timeframe of significant debate. Karl Marx originally coined the term "classical economics" to refer to Ricardian economics – the economics of David Ricardo and James Mill and their *predecessors* – but usage was subsequently extended to include the *followers* of Ricardo.

Sraffians, who emphasize the discontinuity thesis, see classical economics as extending from Petty's work in the 17th century to the break-up of the Ricardian system around 1830. The period between 1830 and the 1870s would then be dominated by "vulgar political economy", as Karl Marx characterized it. Sraffians argue that: the wages fund theory; Senior's abstinence theory of interest, which puts the return to capital on the same level as returns to land and labour; the explanation of equilibrium prices by well-behaved supply and demand functions; and Say's law, are not necessary or essential elements of the classical theory of value and distribution. Perhaps Schumpeter's view that John Stuart Mill put forth a half-way house between classical and neoclassical economics is consistent with this view.

Georgists and other modern classical economists and historians such as Michael Hudson argue that a major division between classical and neo-classical economics is the treatment or recognition of economic rent. Most modern economists no longer recognize land/location as a factor of production, often claiming that rent is non-existent. Georgists and others argue that economic rent remains roughly a third of economic output.

Sraffians generally see Marx as having rediscovered and restated the logic of classical economics, albeit for his own purposes. Others, such as Schumpeter, think of Marx as a follower of Ricardo. Even Samuel Hollander has recently explained that there is a textual basis in the classical economists for Marx's reading, although he does argue that it is an extremely narrow set of texts.

Another position is that neoclassical economics is essentially continuous with classical economics. To scholars promoting this view, there is no hard and fast line between classical and neoclassical economics. There may be shifts of emphasis, such as between the long run and the short run and between supply and demand, but the neoclassical concepts are to be found confused or in embryo in classical economics. To these economists, there is only one theory of value and distribution. Alfred Marshall is a well-known promoter of this view. Samuel Hollander is probably its best current proponent.

Still another position sees two threads simultaneously being developed in classical economics. In this view, neoclassical economics is a development of certain exoteric (popular) views in Adam Smith. Ricardo was a sport, developing certain esoteric (known by only the select) views in Adam Smith. This view can be found in W. Stanley Jevons, who referred to Ricardo as something like "that able, but wrong-headed man" who put economics on the "wrong track". One can also find this view in Maurice Dobb's *Theories of Value and Distribution Since Adam Smith: Ideology and Economic Theory* (1973), as well as in Karl Marx's *Theories of Surplus Value*.

The above does not exhaust the possibilities. John Maynard Keynes thought of classical economics as starting with Ricardo and being ended by the publication of his own *General Theory of Employment Interest and Money*. The defining criterion of classical economics, on this view, is Say's law which is disputed by Keynesian economics. Keynes was aware, though, that his usage of the term 'classical' was non-standard.

One difficulty in these debates is that the participants are frequently arguing about whether there is a non-neoclassical theory that should be reconstructed and applied today to describe capitalist economies. Some, such as Terry Peach,[18] see classical economics as of antiquarian interest. The difference between the two kinds of approaches, classical and marginalist, is well expressed in the distinction between political economy and economics, the former being used for the classical and the latter for the marginalist school of thought. Closely related is the fact that at the time of the classical economists a separate discipline, sociology, did not yet exist. Sociology is widely seen to go back, in France, to Auguste Comte’s lectures on positive philosophy in the late 1830s. Conceived as the investigation of complex social facts, he saw sociology to be the last discipline in his classification of the sciences after mathematics, astronomy, physics, chemistry and biology to reach the status of a positive science. It came last because of the extreme complexity of its explanandum. Eighteenth century political economy, Comte was convinced, was still primitive and lacked the necessary precision with which the phenomena under consideration ought to be determined. He also insisted that political economy relied too much on egoism, whereas what was needed in modern industrial societies was to contain it in terms of altruism. It deserves to be mentioned that especially the German Historical School was also a movement that found fault with the focus on homo oeconomicus and a narrow concept of rationality. Sociological inquiry, the study of social relationships and interaction, clearly predates the proper foundation of the discipline and was an integral part of classical political economy. The need for a separate discipline with this name was especially felt only after marginalism and homo oeconomicus had begun to disseminate and gain in importance, which implied removing from the economic discourse sociological themes, concerns and concepts, including that of social class.

In order to understand the economic world, one has to understand human beings, man’s nature and disposition, his innate characteristic features, his urges and desires, his physical, mental and emotional faculties, and so on. In A Treatise of Human Nature (1739) David Hume (1711-1776) developed a naturalistic view of man and opposed philosophical rationalism by arguing that passion rather than reason governs human behaviour. Adam Smith in The Theory of Moral Sentiments (1759) took issue with the moral doctrines of his time and argued that moral judgment is nothing innate to man but the result of a dynamic interaction of people. By observing others and the judgments they form of one-self and third parties, makes one aware of oneself and of how one is perceived by others. The natural desire to achieve "mutual sympathy of sentiments" with them shapes peoples' habits and eventually their norms of behaviour and conscience, which is the faculty that constrains self-interest. The way this is effectuated is via an "impartial spectator" – the "man within the breast" – whose approval individuals seek. While in the Theory of Moral Sentiments Smith developed a theory of the roots of peoples' moral behaviour, in An Inquiry into the Nature and Causes of the Wealth of Nations (1776) he focused attention first and foremost on the economic sphere and therefore on self-interest. In this work he was especially concerned with how competition would serve as a device that holds selfinterest in check.3 In order to survive, humans have to consume, and in order to consume they have to produce. The starting point of Smith's is an empirical anthropology. Man has been endowed with faculties and motives that condition him towards association, cooperation and competition, development and growth. Smith discerned "a certain propensity in human nature ... to truck, barter, and exchange one thing for another" (WN I.ii.1). But man is not only able to communicate, truck, barter and exchange, he is also in need of it: "In civilized society he stands at all times in need of the cooperation and assistance of great multitudes, while his whole life is scarce sufficient to gain the friendship of a few persons" (WN I. ii.2). From this Smith concluded that: man has almost constant occasion for the help of his brethren, and it is in vain for him to expect it from their benevolence only. He will be more likely to prevail if he can interest their self-love in his favour, and shew them that it is for their own advantage to do for him what he requires of them. Whoever offers to another a bargain of any kind, proposes to do this. Give me that which I want, and you shall have this which you want, is the meaning of every such offer; and it is in this manner that we obtain from one another the far greater part of those good offices which we stand in need of. (WN I.ii.2) Smith exemplified the double coincidence of wants in one of the bestknown passages of the Wealth of Nations: “It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages” (WN I.ii.2). Finally, he also saw the division of labour – which in his view is the main source of material opulence – rooted in the propensity under consideration: “it is this same trucking disposition which originally gives occasion to the division of labour” (WN I.ii.3). Hence, Smith established two crucial axioms upon which his analytical edifice rests: 1. The market is a natural form of organising economic affairs, because it reflects natural faculties of man. 2. Man’s well-being depends on the proper exertion of his trucking disposition and thus on the functioning of markets, because they lead to an ever-deeper division of labour, increase labour productivity and raise income per capita, Smith’s measure of the wealth of a nation. Smith’s economic agent is a homo mercans and homo laborans, but she is also a homo inventivus. Smith emphasized: “the desire of bettering our condition ... comes with us from the womb, and never leaves us till we go into the grave” (WN II.iii.28). It prompts people to save and accumulate capital, expand markets, deepen the division of labour and carry out “improvements” in each and every sector of the economy. It makes them invent machines to abbreviate the toil and trouble of work and to increase the social productivity of labour. In short, it makes them innovate and revolutionize production processes and economic organisation.

The classical surplus approach to value and distribution

The litmus test of what is classical political economy is how its representatives approach the problem of value and distribution, that is, explain the sharing out of the product amongst the various claimants (workers, capitalists and landowners) and which system of relative prices supports this distribution. Notwithstanding important differences between different authors, close scrutiny shows that the unifying element is that they all deal with the problem essentially in the same way: they explain the general rate of profits in the economy, the rents paid to the proprietors of the different types of land and the ordinary or "natural" prices ruling in markets at a given time and place in terms of the following givens or independent variables (see Sraffa 1951, 1960): 1. The total quantities of the various commodities produced during a year. 2. The set of methods of production actually employed in producing these quantities, where this set reflects the technological knowledge available to producers. 3. The real wage rate (or, in the case of heterogeneous labour, the set of real wage rates) in terms of a given bundle of commodities workers can afford with their money wage paid per unit of time (hour or work-day or …). 4. The various qualities of land available in the economy to be used in production. We may illustrate the classical surplus approach to value and distribution in terms of an exceedingly simple example. Assume that there is only a single commodity, wheat alias corn, that is being produced and used as a consumption good to feed people and as a production good needed in the production of itself (as seed). Assume further that there is only a single quality of land available and that land exists in abundance. Landowners competing for tenants who cultivate the land bid the rent down to zero so that in our thought experiment we get rid of the problem of rent. There is only one kind of labour and the wage rate per unit of it is given. A numerical example may illustrate the main ideas. Assume that altogether 100.000 tons of corn are being produced during the year by 200.000 workers, each of which receives a wage in terms of corn at the beginning of the year to feed himself and his family that amounts to 0.3 tons of corn per year. Total wages paid annually thus equal 200.000 x 0.3 = 60.000 tons of corn. Assume that seed that has to be put up with at the beginning of the year equals 20.000 tons of corn. Wages and seed are for simplicity taken to equal total cost of production and thus amount to 60.000 + 20.000 = 80.000 tons of corn. They constitute the physical capital, consisting of means of production (seed) and means of sustenance in the support of workers and their families (wages), that has to be advanced at the beginning of the period or production, which is supposed to be a year.

3.4 SMITH

Adam Smith's contribution to the tradition of classical political economy was hugely influential. This essay will discuss two of his major theories outlined in the Wealth of Nations; the division of labour and then the invisible hand, whilst briefly touching upon Smith's view on the role of the state and the free-market. Smith was a moral philosopher from the late 18th Century and wrote; "An Inquiry into the Nature and Causes of the Wealth of Nations" in 1776, to critique the political-economic system of the time; mercantilism. This was an economic theory and practice that encouraged imperialism and state intervention into the allocation of scarce resources. Smith was writing at the outset of the Industrial Revolution when the world was changing.

In the Wealth of Nations, Smith proposed many revolutionary economic theories including; the division of labour, the labour theory of value, the role of the state in an economy and the invisible hand among others, which he thought would build a nations' wealth. Classical political economy is a group of theories that developed in the 17th – 19th Century to try and understand society on the basis of its economic foundation. Smith viewed political economy as a branch of science of statesmen, aimed at providing its citizens with plentiful revenue or subsistence and sufficient revenue for state for public service. It proposed to enrich both the people and the sovereign. (Smith, 2008, p. 275; Burnham, P., 2014, A). Smith believed that society should be market-based, which he believed were characterised by the three factors of production; land, labour and capital. These factors of production produce three classes within society: landowners, capital owners and labour. Each class receives revenue, and all are independent of each other. Smith's main point in the Wealth of Nations was that all classes could gain from an increase in the scope of the market; anything that impedes the free-market is a problem (Burnham, P., 2014, B).

Discussion

One of Smith's key theories, proposed in the Wealth of Nations, was that of the division of labour. This refers to the separation of different parts of the production process according to the worker's ability and/or the worker's equipment. Smith believed that the benefits were clear; it enhanced the production process leading to a more efficient use of scarce resources as well as lowering the cost of production (Smith, 2008, Book I, ch.1). Furthermore, Smith strongly believed that the division of labour greatly increased the quantity a worker and/or firm could produce. The results of dividing labour are; the increase in the skill of the worker; reduced time loss upon switching production process, and the invention of machines which aids workers and enables one man to do the work of many. By reducing the worker's part of the production process to one, simpler operation performed solely by the worker, this increases the worker's skill and performance. As no worker needs to change task, more time can be dedicated to the production process. The specialisation of workers would enable firms to employ machinery, thus producing more goods more efficiently compared to human capital, reducing the number of workers required to make a certain quantity of goods, and therefore reducing the cost of production (Smith, 2008, pp.15-17). In the 18th Century when The Wealth of Nations was published, factory owners adopted his principle of people specialising in particular jobs as shown in his example of the pin-maker. This principle of specialisation has continued to modern industrial occupations, such as car manufacturing.

However, Smith believed that the division of labour was limited by the extent of the market. For example, if the market is so small that a worker cannot sell their produce of labour efficiently, the worker will make losses, and so, on this basis, may work in an industry for which they are not skilled in. Smith argued that division of labour will only take place when the population is large, that will create enough demand for specialised services (Smith, 2008, Book I, ch. 3). Karl Marx disagreed with Smith's theory, as he believed that specialisation would lead to the alienation of workers as the work becomes repetitive and reduces the value of the worker from a human being to that of a machine (Marx, 1988, p.72). In addition when work becomes more specialised, less training is required for each job, and so, the individual workers become less skilled than if one worker performed the whole task (Marx, 1999, p.119). Smith also critiques the division of labour; he believed that if a worker devoted their life to performing one or a few simple operations of which the effects are similar or the same, the worker has no occasion to discover methods for removing difficulties that never occur. Smith argues that because of this, the worker would generally become as stupid and ignorant as is possible for a human to be (Smith, 2008, pp. 429 – 430).

Another one of Smith's most prominent ideas was the concept of the 'Invisible Hand' and the idea of a free-market (Smith, 2008, Book IV, ch. 2). What Smith actually meant by 'Invisible Hand' is still a contested idea between economists, but it is widely believed that it is a metaphor to describe the guide of the allocation of scarce resources in a free-market. A free-market is a market free from government intervention and so the market price of goods are determined by the interaction between supply and demand. Smith stated that all actors, buyers and sellers, act in their own self-interest (Burnham, P., 2014, B). Smith claimed that, due to the absence of government intervention, buyers are free to choose where to buy goods from and seller are free to choose which goods they want to supply and at what price and quantity.

Smith believed that this method would benefit society as buyers, acting in their own self-interest, would buy goods from the cheapest sellers. This would mean that firms would compete against each other, trying to gain as many customers as possible to maximise their own self-interest; profit. This would lead to firms cutting their prices in order to gain buyers. In turn, the inefficient firms with higher costs and whose use of resources are inefficient, will not be able to cut their prices, so are forced out of the market. An obvious example of this is budget airlines competing against each other, Laker Airways became bankrupt in 1982 trying to compete. This inevitably leads to a more efficient use of resources, with buyers getting their goods at a cheaper price and/or higher quality; improving their utility whilst the efficient firms reap the benefits of increased profits. Smith believed that because of this, the free-market is the best way to allocate scarce resources and that individuals trying to maximise their utility would in turn increase the utility of society (Smith, 2006, p.316). The most obvious example of the free-market theory in practice today is America – whether or not it is successful in allocating resources efficiently or lowering prices is debatable.

A common misconception is that Smith wanted no state intervention whatsoever. However, although he wanted a small state, he saw four main roles for the state to play: to uphold the rule of law, to protect society from people who are against the market, to maintain public infrastructure, and to foster "justice" (Burnham, P. 2014 B).

Not everyone agrees with Smith's theory of the invisible hand and that the free-market benefits society. The free-market does not work efficiently when externalities exist. An externality is an action of an individual that has an impact on others, which the individual does not pay for/the other individual is not compensated for, so therefore, the market price does not reflect the true cost to society (Mankiw & Taylor, 2014 p. 189). Marx argued that the capital class, that is those who own the modes of production, do not work and therefore exploit the workers. He also believes that capitalists would eventually accumulate more and more capital, further exploiting the working class (Marx, 1999, Vol. 7). More recently, Joseph Stiglitz identifies that markets are too short-term driven, and are unlikely to invest in research and development, which historically has been done by the government. As well as this, Stiglitz believes that due to asymmetric information and individuals pursuing their own personal interest, the free-market will inevitably lead to those with the information to benefit at the expense of others, therefore, markets will not be efficient (Stiglitz, 2004). This can be seen in George Akerlof's example of a used car salesman, who has more information than the customer, and so can gain at the expense of the customer (Akerlof, 1970).

Adam Smith was immensely influential and made a huge contribution to the tradition of classical political economy. He produced the building blocks for basic liberal economics – that of the free-market – and many of his theories are still used in some way today. Smith's works influenced many prominent economically liberal academics of the 20th Century, including Milton Friedman and Friedrich Hayek. Smith's theories have been adopted by governments, most notably Margaret Thatcher's and Ronald Reegan's, and have been adapted to suit the different situation of modern society. With hindsight, and through criticisms from prominent academics, such as Karl Marx, we now know that there are faults with some of Smith's key theories, such as asymmetric information and externalities in a market. However, in the 18th Century, Smith's theories were revolutionary and helped change the political-economic system of Britain from that of mercantilism to classical political economy. Smith's theories also helped to kick-start Britain's Industrial Revolution in the 18th Century, which aided Britain's ascension to be the most powerful and wealthy country in the world (Hudson, 2011). Therefore, it could be argued that his contribution was immense and nearly two hundred and fifty years later, he continues to influence political and economic thinking.

3.5 RICARDO

Ricardo, an English economist (1772-1823), from Dutch-Sephardi origins, became rich at a very young age on the stock market and devoted the rest of his life to the study of mathematics and natural sciences and, from 1799, Economics. He became known with his pamphlet "The high price of bullion" on economic issues, and ended his work with his "Principles of Political Economy and Taxation." Ricardo took the major step in the process of deductive abstraction of what later became known as the Classical school of economics in the path initiated by Adam Smith. His theories of comparative advantage, which were firstly stated in 1815 by Col. Robert Torrents (Ricardian trade theory), rent of land (Ricardian distribution theory) and the steady state, were some of their major contributions to economic science.

Check Your Progress 1

Note : i) Use the space given below for your answers.

ii) Check your answer with the model answers given at the end of the unit.

1. How do you know about Classical Political Economy?

……………………………………………………………………………

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2. Discuss the Political economy, economics, sociology.

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3. Discuss the Smith.

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4. How do you know what Ricardo talks about?

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3.6 LET US SUM UP

Classical economics or classical political economy is a school of thought in economics that flourished, primarily in Britain, in the late 18th and early-to-mid 19th century. Its main thinkers are held to be Adam Smith, Jean-Baptiste Say, David Ricardo, Thomas Robert Malthus, and John Stuart Mill. These economists produced a theory of market economies as largely self-regulating systems, governed by natural laws of production and exchange (famously captured by Adam Smith's metaphor of the invisible hand).

Adam Smith's The Wealth of Nations in 1776 is usually considered to mark the beginning of classical economics. The fundamental message in Smith's book was that the wealth of any nation was determined not by the gold in the monarch's coffers, but by its national income. This income was in turn based on the labor of its inhabitants, organized efficiently by the division of labour and the use of accumulated capital, which became one of classical economics' central concepts.

In terms of economic policy, the classical economists were pragmatic liberals, advocating the freedom of the market, though they saw a role for the state in providing for the common good. Smith acknowledged that there were areas where the market is not the best way to serve the common interest, and he took it as a given that the greater proportion of the costs supporting the common good should be borne by those best able to afford them. He warned repeatedly of the dangers of monopoly, and stressed the importance of competition. In terms of international trade, the classical economists were advocates of free trade, which distinguishes them from their mercantilist predecessors, who advocated protectionism.

The designation of Smith, Ricardo and some earlier economists as "classical" is due to Karl Marx, to distinguish the "greats" of economic theory from their "vulgar" successors. There is some debate about what is covered by the term classical economics, particularly when dealing with the period from 1830–75, and how classical economics relates to neoclassical economics.

3.7 KEY WORDS

Neoclassical: Neoclassicism is the name given to Western movements in the decorative and visual arts, literature, theatre, music, and architecture that draw inspiration from the "classical" art and culture of classical antiquity

3.8 QUESTIONS FOR REVIEW

5. How do you know about Classical Political Economy?
6. Discuss the Political economy, economics, sociology
7. Discuss the Smith
8. How do you know what Ricardo talks about?

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3.10 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress 1

1. See Section 3.2
2. See Section 3.3
3. See Section 3.4
4. See Section 3.5

UNIT 4: MARX-NEO CLASSICAL ECONOMY: KEYNES

STRUCTURE

4.0 OBJECTIVES

After this unit 4, we can able to know:

- To know about the Economic Models for the Modern World
- To discuss the Economic Thought vs. Economic Behavior
- To know The Economics of the Hunt
- To describe Adam Smith
- To know Karl Marx
- To know John Maynard Keynes
- To discuss The Power of Economics
- To describe Marxian v Neoclassical Economics

4.1 INTRODUCTION

Neoclassical economics is an approach to economics focusing on the determination of goods, outputs, and income distributions in markets through supply and demand. This determination is often mediated through a hypothesized maximization of utility by income-constrained individuals and of profits by firms facing production costs and employing available information and factors of production, in accordance with rational choice theory, a theory that has come under considerable question in recent years.

Neoclassical economics dominates microeconomics and, together with Keynesian economics, forms the neoclassical synthesis which dominates mainstream economics today. Although neoclassical economics has gained widespread acceptance by contemporary economists, there have been many critiques of neoclassical economics, often incorporated into newer versions of neoclassical theory, but some remaining distinct fields.

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.

No attempt will here be made even to pass a verdict on the relative claims of the recognized two or three main "schools" of theory, beyond the somewhat obvious finding that, for the purpose in hand, the so-called Austrian school is scarcely distinguishable from the neo-classical, unless it be in the different distribution of emphasis. The divergence between the modernized classical views, on the one hand, and the historical and Marxist schools, on the other hand, is wider, so much so, indeed, as to bar out a consideration of the postulates of the latter under the same head of inquiry with the former. – Veblen

It was later used by John Hicks, George Stigler, and others to include the work of Carl Menger, William Stanley Jevons, Léon Walras, John Bates Clark, and many others. Today it is usually used to refer to mainstream economics, although it has also been used as an umbrella term encompassing a number of other schools of thought, notably excluding institutional economics, various historical schools of economics, and Marxian economics, in addition to various other heterodox approaches to economics.

Neoclassical economics is characterized by several assumptions common to many schools of economic thought. There is not a complete agreement on what is meant by neoclassical economics, and the result is a wide range of neoclassical approaches to various problem areas and domains—ranging from neoclassical theories of labor to neoclassical theories of demographic changes.

Classical economy, whose beginning is usually traced to Adam Smith, found its best expression and also its end in David Ricardo. Ricardo, as Marx wrote, "made the antagonism of class-interest, of wages and profits, of profits and rent, the starting-point of his investigation, naively taking this antagonism for a social law of nature. But by this start the science of bourgeois economy had reached the limits beyond which it could not pass," for a further critical development could lead only to the recognition of the contradictions and limitations of the capitalist system of production. By doing what could no longer be done by bourgeois economists, Marx felt himself to be the true heir, and the destroyer as well, of bourgeois economy.

The further development of economic theory supported Marx's opinion. Though bourgeois economy was indeed unable to advance, it was able to change its appearance. Classical economics had emphasized production and the system as a whole. Their followers emphasized exchange and individual enterprise. Although there arose no serious doubt that the capitalist system is natural, reasonable, and inalterable, yet the early confidence of bourgeois economy was slowly destroyed by a growing discrepancy between liberal theory and social reality. The increasing economic difficulties which accompanied the accumulation of capital developed an interest in the business cycle, in the factors that make for prosperity, crisis and depression. The neo-classical school, whose best-known proponent was Alfred Marshall, attempted to transform economy into a practical science, that is, to find ways and means to influence market movements and to increase both the profitability of capital and the general social welfare. But the increasing length and violence of depressions soon changed a new optimism into even deeper despair, and the sterility of bourgeois economics led economists once more to embrace the less-embarrassing security of "pure theory" and the silence of the academies.

In the midst of the Great Depression, bourgeois economic theory was suddenly raised from the dead by the "daring" theories of John Maynard Keynes. His main work, The General Theory of Employment, Interest and Money, was hailed as a "revolution" in economic thought and led to the formation of a school of "Keynesian economics." While persistent "orthodox" economists opposed this new school as "socialistic" or "illusionary," so-called socialists attempted to blend Marx with Keynes, or rather, to accept Keynes' theories as the "Marxism" of our time. Marx's scepticism with regard to the future of bourgeois economy was now said to indicate only his inability or unwillingness to criticize the classicists constructively. Of Keynes it was said that he made real Alfred Marshall's aspirations for a reformed and improved capitalism. These endeavors, as well as the great popularity of the "Keynesians," both generally and in academic circles, and also their insistence upon the practical applicability of their economic reasoning and their apparent political influence, make it both advisable and interesting to investigate their claims and to review the work of their deceased master in the light of the actual development and the recognizable trend of present-day society. This invites a comparison of the Keynesian with the Marxian point of view.

Until the publication of the General Theory, Keynes was regarded as an economist of the neo-classical school whose marginal language was also his own. Economic categories were decked out in psychological terms, presumably derived from "human nature." Individual anticipations and disappointments determine economic life and Keynes even spoke of the money-making and money-loving instincts of individuals as the main motive force of the economic machine. He believed that it is a "psychological law" that individuals tend to consume progressively smaller portions of their income as their incomes increase. When aggregate real income increases, consumption increases, too, of course, but not by so much as income. Assuming that all investment ultimately serves consumption needs and that an increase of income increases consumption by less than income, savings will increase faster than investments. With this, aggregate demand declines and the level of employment falls short of the available labor supply. This happens in a "mature" society because of the already existing large stock of capital, which depresses the marginal efficiency or profitability of capital and therewith expectations with respect to future capital yields. And this, in turn, creates a psychological attitude on the part of the wealth-owners to hold their savings in money-form rather than to invest in enterprise promising little or no reward.

Economic stagnation and large-scale unemployment was at the center of Keynes' interest. Traditional economic theory was bound to the imaginary conditions of full employment and to Say's "law of the market" — to the belief, that is, that "supply creates its own demand." Like Say, Keynes saw in present and future consumption the goal of all economic activity, but, in distinction to the French economist, he no longer held that supply brings forth sufficient demand to maintain full employment. The refutation of "Say's law" is hailed as the most important aspect of the Keynesian theory, particularly because it defeats this "law" on its own ground by showing that just because of the "fact" that production serves consumption, supply does not create its own demand.

Almost seventy-five years earlier, Marx had already pointed out that only an accelerated capital expansion allows for an increase of employment, that consumption and "consumption" under conditions of capital production are two different things, and that total production can rise only if it provides a greater share of the total for the owners and controllers of capital. The "dull and comical 'prince de la science', J.B. Say," Marx did not find worth overthrowing, even though "his continental admirers have trumpeted him as the man who had unearthed the treasure of the metaphysical balance of purchase and sales" . For Marx, Say's law of the market was sheer nonsense in view of the growing disequilibrium between the profit needs of capital expansion and the rationally considered productive requirements of men, between the "social demand" in capitalism and the actual social needs; and he pointed out that capital accumulation implies an industrial reserve army.

When Keynes at such late hour, approached Marx's position, it was not in order to point to an inherent contradiction of capital production but to hail the disparity between employment and investment as a great accomplishment. In his view only "a wealthy community will have to discover much ampler opportunities for investment if the saving propensities of its wealthier members are to be compatible with the employment of its poorer members" [2]. However, short of closing the gap between income and consumption it follows from Keynes' theory that "each time we assure today's equilibrium by increasing investments we are aggravating the difficulties of securing equilibrium tomorrow" [3]. For the next future, however, he thought these difficulties surmountable through government policies which diminished "liquidity-preference" and increased "effective demand" by controlled inflation, reduced interest-rates and lowered real wages, thus promoting inducements to invest. If these are not sufficient, the government can increase economic activity by public works and deficit-financing. With full employment the criterion, the effectiveness of various interventions into the market-economy can be tested experimentally. Anything that does not lead to full employment is not enough. Because increased employment by way of "pump-priming" may lead to "secondary employment" in additional branches of production, it was assumed that it will lead to such employment. And if all should fail, there is still the possibility of a direct control of investments by government.

It is not necessary to agree with Keynes as to the cause of unemployment to recognize that the policies he suggested to combat it have been the policies of all governments in recent history whether they were aware of his theories or not. They had made their historical debut long before their theoretical expression. All the monetary and fiscal innovations had already been tried: public works, inflation and deficit-financing are as old as government rule and have been employed in many a crisis situation. In modern times, however, they have been regarded as exceptions to the rule, excusable in times of social stress but disastrous as a permanent policy.

For Marx, the inherent contradictions of capital production are not of an "economic" character in the bourgeois sense of the term. He is not concerned with the supply and demand relations of the market but with the effect of the social forces of production upon the capitalist social relations of production, that is, with the results of the increasing productivity of labor upon the production of value and surplus-value. Celebrated as the product of capital itself, bourgeois theory separates growing productivity from its social implications. For Marx, it is the independent variable that determines all the other variables in the system of economic relationships.

The special importance of labor and its increasing productivity in Marx's scheme of reasoning led to his discovery of a definite developmental trend in capital accumulation, which revealed qualitative changes in the wake of quantitative ones. He could show that the capitalist "equilibrium mechanism" must itself change in the course of capital expansion and that it is the latter which determines and modifies the market forces of supply and demand, since market laws have to assert themselves within a larger frame of a developing "disequilibrium" between the social forces of production and the capitalist relations of production.

The increase of productivity, of surplus-value and the accumulation of capital are all one and the same process. It implies a more rapid growth of capital invested in means of production than that invested in labor power. It involves what Marx called a "rising organic composition of capital." As profits are calculated on the total invested capital, they must show a tendency to decline as that part of the total which alone yields surplus value becomes relatively smaller. Of course, the process also implies an increasing ability to extract more surplus-value, thus nullifying the "tendency" of profits to decline, and constituting the reason for the process itself. Leaving aside all the intricacies of Marx's exposition, his abstract scheme of capital expansion shows that apart from competition as the driving force of capital expansion in the market reality, the production and accumulation of surplus-value already finds in the two-fold character of capital production — such as exchange and use value — a limiting element, to be overcome only by the continuous expansion and extension of the capitalist mode of production. In order to forestall a falling rate of profit, accumulation must never rest. More and more surplus-value must be extracted and this involves the steady revolutionizing of production and the continuous extension of its markets. As long as accumulation is possible, the capitalist system prospers. If accumulation comes to a halt crisis and depression set in.

Both Marx and Keynes, then, though for different reason, recognize the capitalist dilemma in a declining rate of capital accumulation. Keynes diagnoses its cause as a lack of incentive to invest. Marx, looking behind the lack of incentive, finds the reason for it in the social character of production as a production of capital. Keynes does not regard crisis and depression as necessary aspects of capital formation; they are such only under laissez-faire conditions, and then only in the sense that the economic equilibrium does not include full employment. For Marx, however, a continuous capital accumulation presupposes periods of crises and depression, for the crisis is the only "equilibrium mechanism" which operates in capitalism with regard to its development. It is in the depression period that the capital structure undergoes those necessary changes which restore lost profitability and enable further capital expansion.

4.2 ECONOMIC MODELS FOR THE MODERN WORLD

Spanning three centuries of history, from the dawn of the industrial age to modern times, three diverse thinkers developed their own landmark theories on commerce, labor, and the global economy.

Marx's theory of accumulation anticipated Keynes' criticism of the neo-classical theory through its criticism of classical theory. In its essentials, then, Keynes' "revolution" consists in a partial re-statement of some of Marx's arguments against the capitalist economy and its theory. Keynes did not study Marx, and he did not feel the need for doing so because he identified Marx's theories with those of the classicists. By opposing the classical theory Keynes thought he was opposing Marx as well. In reality, however, he dealt with neither of these theories but with the neo-classical market theory which had no longer any significant connection with the ideas of Smith and Ricardo. Marx's critique of classical economy, however, resembles Keynes' criticism of the neo-classicists, although it cuts deeper than Keynes' because the classicists had been profounder thinkers than their apologetic emulators, and because Marx was not a bourgeois reformer.

Although Keynes wished to “knock away the Ricardian foundations of Marxism,” in order to do so, he had first of all to post himself on these very foundations. He accepted the theory of value in the Ricardian sense, in which labor as the sole factor of production includes “the personal services of the enterpreneur and his assistants.” Like Marx he dealt in economic aggregates, but while in Marx’s system the analysis in terms of economic aggregates was to lead to the discovery of the basic trend of capital accumulation and to no more, in the Keynesian system it was to serve the formulation of a policy able to support the trend without doing damage to the capitalist relations of production. Expressed in simplest terms, Keynes’ model represents a closed system divided into two departments of production; one producing consumption goods and the other producing capital goods. The total money expenditure in terms of wage-units (based on the working hour) for both consumption and capital goods constitutes total income. When the aggregate demand, that is, the demand for consumption and capital goods, equals total income and implies that total savings equal investments, the system is supposed to be in equilibrium. A decline of aggregate demand, implying a discrepancy between savings and investments, reduces total income and produces unemployment. In order to alter this situation the aggregate demand must be increased to a point where total income implies full employment.

In Marx’s system of economic aggregates constant capital is the property of the capitalist class, variable capital the social equivalent of labor-power, and surplus-value the accumulation and income source of the ruling class. It is here not a question of “social income” and “social output” and their relation to each other, but a question of the capitalist exploitation of labor power.

Until the second world war, Keynes’ theories enjoyed only small verification. He had a perfect alibi, however — either his suggestions were not carried out or they were too meagerly applied. But with the beginning of war production, Keyness was confident that his theory would be fully confirmed. Now it would be seen “what level of total output accompanied by what level of consumption is needed to bring a free, modern community . . . within the sight of the optimum employment of its resources". War-time policies, however, were quite independent of Keynesian ideology, being neither different from those employed in the First World War, nor different between various governments, some of which did not adhere to the Keynesian "revolution." All the innovations associated with the commandeered economy of the second world war, such as a money and credit inflation, price controls, labor controls, priorities, forced savings, rationing and so forth had been current in the first debacle despite the then prevailing "orthodox" approach to economics.

If the war economy "proved" the validity of Keynes' theory, it did so to such a degree that the theory itself had to be put in reverse. Although unsuccessful in increasing the "propensity to consume" during the depression, it was a "brilliant success" in cutting it down during the war. Unable to increase investments up to the point of full employment, it led to labor shortages through the destruction of capital. Although suspended during the war, Keynes' theories would hold good again with the return to "normalcy." The war itself only proved to him that technically any economic system could have full employment if it so wished; it did not occur to him that under present conditions war and preparation for war may be the only way to full employment. It did occur to others; generally, however, the Keynesian spirit is best represented by such adherents of the welfare-state as William Beveridge, who, near the end of the Second World War, proposed a full employment program based on the "socialization of demand without the socialization of production". Built on Keynesian principles and choosing budgetary means for its realization, it was to carry the full employment of war into the conditions of peace.

Fears that large-scale unemployment would return in the wake of the second world war proved to be exaggerated. A clear distinction between war-production and peace-time production no longer existed and no need arose to adopt the Beveridge or any other plan for a fuller utilization of productive resources. Since the inception of the "Keynesian revolution," then, no real opportunity has arisen to test its practical validity. Yet, government intervention during the depression increased employment to some extent. It may then be said that the theory proved itself in a very general way wherever it was employed, and to the degree in which it was applied. In this sense, however, Keynesianism would be just another name for governmental depression policies, and would exhaust itself in the suggestion that the government should take care of the anticipatory aspects of capital formation wherever private initiative begins to slacken. While production is still production for private gain, its expansion is the government's responsibility — a logical extension of the credit-system by a shift from private to governmental financial control.

Not only from the Keynesian, but from any realistic point of view, government intervention is now regarded as an inescapable necessity. An increasing amount of "welfare-economics" is advocated by the proponents both of the "welfare-state" and of private enterprise. But even though nobody seems to doubt that government control is here to stay, the question of its character remains controversial. The Keynesians are generally for more government intervention, but as the consistent increase of government regulation and deficit-financing is synonymous with the transformation of the private into a state-capitalism system, it is often opposed as a form of "creeping socialism." Because Keynesianism may also be regarded as a transitory state towards a completely government-regulated capitalist economy, it has become the theory of social reform within the capitalist system. It stands thus in strictest opposition to Marxism which concerns itself not with social reform but with the abolition of the capitalist system.

4.3 ECONOMIC THOUGHT VS. ECONOMIC BEHAVIOR

"Economics is a study of mankind in the ordinary business of life," wrote 19th-century economist Alfred Marshall. What choices do you face in the ordinary business of your life? Buying clothing, deciding what to eat, or seeking a job — all involve considerations of cost, scarcity, and tradeoffs with other options. Whether or not you think of them as such, these are economic decisions.

Now extend that idea to scales beyond your individual transactions. Modern society is woven together by a complex network of individual choices with local, national, and even global implications. Economics is the field of knowledge that seeks to systematically analyze, interpret, and understand these decisions. In practice, economics is a dynamic tool used by governments, businesses, and even individuals to observe, manage, and influence how people produce and consume goods and services.

The three economists profiled in this article — Adam Smith, Karl Marx, and John Maynard Keynes — contributed substantially to the development of economics as a science. Nevertheless, considerations of production, distribution, choice, scarcity, and alternate uses far predate these men, to the earliest days of humankind. Ages before there was economic thought, there was economic behavior.

4.4 THE ECONOMICS OF THE HUNT

In the words of economic historian Roger Backhouse, “Economics does not have a beginning or a ‘founder’; people have always thought about questions that we now consider part of economics.” The earliest humans, for example, spent lots of energy to track and kill large game, which they would then need to distribute, and which each individual would decide to conserve or use. Even without developed cultural, commercial, or legal systems, effective economic decision-making was often imperative for survival.

As hunter-gatherer groups coalesced into more organized societies, decisions about distributing resources and designating jobs became more complex. For many thousands of years, it was not the communal egalitarianism of hunter-gatherer times or by the individualism of today that drove such decisions. Rather, as 20th-century economic historian Robert Heilbroner says, people worked according to “custom” (doing work that was passed down from previous generations) or “command” (working to avoid violence or other retribution). Not the blacksmith in medieval Europe, the farmer in India, nor the pyramid-building slave in Egypt worked to advance his or her own goals, dreams, or prosperity.

Early economies were also marked by an ambivalent attitude toward money and the pursuit of wealth for its own sake. Writes Heilbroner, “The idea of gain...was quite foreign to the great lower and middle strata of Egyptian, Greek, Roman, and medieval cultures, only scattered throughout Renaissance and Reformation times, and largely absent in the majority of Eastern civilizations" (Heilbroner, pp. 24–25). Those who worked with money (merchants, lenders, and even craftsmen with specialized skills) were often viewed suspiciously and sometimes even punished for innovating within their trades. Consequently, skills and technology advanced gradually and similar jobs and standards extended across many generations.

Around 1500 CE, several drastic changes were set in motion. Overseas trade established new networks and boosted collective learning and commercialization. Globally traded currency created an easily recognizable and transferrable store of wealth and medium for exchange. Individual markets, once physical places for the simple exchange of goods, began merging to create the market system, which, according to Heilbroner, "is not just a means of exchanging goods; it is a mechanism for sustaining and maintaining an entire society" (Heilbroner, pp. 26–27). By the 1600s and 1700s, custom and command ceased to exert as much influence as the pursuit of wealth. Rather than survival, obedience, or tradition, it was "the lure of gain...[that] steered the great majority to his or her task" (Heilbroner, p. 21). It was in this era, on the verge of the Industrial Revolution, that Adam Smith lived and worked.

4.5 ADAM SMITH

When the Scotsman Adam Smith (1723–1790) was born, industrialization and a profit-driven market system were replacing custom and command-driven economic systems across Europe. These changes reflected the intellectual shift toward rationality, progress, liberty, and secularism, generally referred to as the Enlightenment.

Smith studied in Glasgow, Scotland, and Oxford, England. As a professor and lecturer, private tutor to the children of European royalty, government economic adviser, and a customs commissioner for Scotland, Smith had a comprehensive understanding of economics, which was captured most powerfully in An Inquiry Into the Nature and Causes of the Wealth of Nations, better known (and referred to hereafter) as The Wealth of Nations.

Composed at the dawn of the Industrial Revolution, The Wealth of Nations describes a world increasingly dominated by commerce and capitalism. Here, Smith gives his observations of a visit to a pin-making factory:

One man draws out the wire, another straights it, a third cuts it, a fourth points it, a fifth grinds it at the top for receiving the head; to make the head requires two or three distinct operations; to put it on is a peculiar business, to whiten the pins is another; it is even a trade by itself to put them into the paper; and the important business of making a pin is, in this manner, divided into about eighteen distinct operations.... [An average factory of ten workers] could make among them upwards of forty-eight thousand pins in a day. Each person, therefore...might be considered as making four thousand eight hundred pins in a day. But if they had all wrought separately and independently, and without any of them having been educated to this peculiar business, they certainly could not each of them have made twenty, perhaps not one pin in a day.

(The Wealth of Nations, p. 10)

In other words, the division of labor enabled one man to be as much as 4,800 times more productive than if he worked alone! In addition, Smith argued that people have a natural drive to improve their own lives. This self-interest, he suggested, propels markets to satisfy individual demands by producing the goods and services people want. He called this the “invisible hand,” and wrote, “It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest” (The Wealth of Nations, p. 20).

He suggested that competition between businesses prevents exploitation of consumers by ensuring fair prices and quality products, encouraging constant economic innovation, and satisfying consumer demand. In short, competition keeps everyone honest, because customers treated unfairly by one business can always patronize another instead.

Smith’s view that the complex functions of society and economy emerged, unintentionally yet effectively, from the self-interested actions of each individual must have been both reassuring and liberating to a world grasping for new means of economic, social, and political organization. It was certainly popular: the first edition of The Wealth of Nations sold out within six months.

Smith's remarkable insights not only captured his own time accurately; they also foresaw much of the economic future, which is evident in the endurance of free-market capitalism as the world's foremost economic model for the last 200-plus years. Today, we call this arrangement "economic liberalism" (different from the "liberal" political alignment in America) and the liberalization of economies continues around the world (Balaam and Veseth, p. 48-49).

Though Smith predicted many of the successes of industrial capitalism, he lived too early in the Industrial Revolution to see its worst excesses. It would take several more decades to produce a critic whose cynicism toward capitalism matched Smith's optimism. That critic was Karl Marx.

Check Your Progress 1

Note : i) Use the space given below for your answers.

ii) Check your answer with the model answers given at the end of the unit.

1. How do know about the Economic Models for the Modern World?

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2. Discuss the Economic Thought vs. Economic Behavior.

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3. How do you know The Economics of the Hunt?

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4. Describe Adam Smith.

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4.6 KARL MARX

Karl Marx (1818–1883) was born in the midst of the Industrial Revolution, into a middle-class family in Prussia (a former German kingdom straddling parts of present-day Germany and Poland). He led a tumultuous life: he was jailed for public drunkenness as a college student; his home and personal appearance were unkempt; and he spent income frivolously, causing his family to frequently live on the brink of poverty. For most of his professional life, Marx was a writer for a variety of liberal, radical, and foreign newspapers, moving between Prussia, France, Belgium, and England because he was continually blacklisted or deported for his radical views.

Marx's attitude toward capitalism was scathing. In an age when "the Industrial Revolution had changed the process of production into a factory system and created a new ruling class of factory owners" (Bussing-Burks, p. 85), Marx perceived injustice, inequality, and the inevitability of change. Marx and his frequent coauthor, Friedrich Engels were outraged at the hardships faced by the working classes of industrial European cities, and they channeled this anger into two monumental written works that formed the basis of modern communism: The Communist Manifesto, published in 1848, and a four-volume, 2,500-page opus, Das Kapital, published in 1867.

Marx's analysis sees the "history of all...societies [as] the history of class struggle." Marx interpreted human history as a series of eras, each defined by systems for producing goods, which created classes of rulers and the ruled. This process had already progressed from slavery to feudalism to capitalism and, in Marx's view, would eventually lead to a classless society called communism.

Why did Marx object to capitalism? He believed that "capitalists" (the owners of the machines, property, and infrastructure used to produce things) were a separate class from the workers, or "proletariat," who own nothing but the right to sell their labor in exchange for wages. Marx theorized that capitalists, in competition with each other for profits, would squeeze as much work as possible out of the proletariat at the lowest possible price. Furthermore, competition would cause some capitalists' firms to fail, increasing unemployment (and thus misery and poverty) among the proletariat. Innovations in technology were not necessarily positive; new machines would add to unemployment (by rendering human labor increasingly inefficient and obsolete) while also making work dull, repetitive, and alienating.

Yet Marx was not altogether dismissive of capitalism, which he saw as a necessary stage for building a society's standard of living. But in his view, the proletariat's discontent would inevitably lead it to overthrow the ruling classes and create a more equitable society, at first socialist (wherein the state would control the economy and distribute resources more evenly) and then purely communist (a stateless, classless, egalitarian society without private property or nationality).

Marx's beliefs, theories, and predictions represent a school of thought called Marxism. International political economy professors David Balaam and Michael Veseth caution, however, that there is no definitive reading of Marx, and that "Marxism is at once a theory of economics, politics, sociology, and ethics. For some, it is also a call to action" (Balaam & Veseth, p. 73). As a call to action, Marxism was most influential in the 20th century, when it inspired various brands of revolutionary activity, including the Russian Revolution in 1917 and the rise of communist governments in China, Vietnam, and Cuba, as well as in many Eastern European and African nations. It has since fizzled out, with the U.S.S.R. collapsing in the early 1990s, China shifting toward a market-friendly economy, and smaller communist countries that depended on them adopting more market-oriented systems.

As a theory, Marxism is arguably more durable. While some believe that communism's decline disproves Marx, others draw upon his approach to critique economic phenomena on social grounds. Even as capitalism defines most of the world's economies, Marxism remains alive in "the idea that capitalism can undergo serious scrutiny and adaptation" (Bussing-Burks, p. 95). In other words, Marx's skepticism about capitalism initiated an ongoing conversation about its shortcomings and how it can be improved. While he was no Marxist, our third economist, John Maynard Keynes, was highly influential in confronting the dilemmas of capitalism in the early 20th century.

4.7 JOHN MAYNARD KEYNES

John Maynard Keynes (1883–1946, last name rhymes with “rains”) was born into an educated family, and during his life he worked in academia, economic publishing, private financial advising and management, currency speculation, and as an official in the British Treasury.

While his contributions to economics were extensive, Keynes is most famous for his ideas about the Great Depression, the major economic crisis of the 20th century. The Depression’s effects were felt worldwide from roughly the early 1930s to the mid-1940s. The United States saw unemployment increase from 3 to 25 percent, a halving of the national income, and a near cessation of residential construction (Buchholz, p. 210). Keynes’s analysis of the Great Depression focused on the role of savings. In his 1936 book The General Theory of Employment, Interest and Money, Keynes argued that excessive savings could lead to economic ruin. A weak economy made businesses hesitant or unable to make investments that created jobs. Without jobs, people had no income that, if spent, would have stimulated demand for more production. Savings increased in anticipation of economic hardship. But then savings dried up as joblessness persisted. Individual rationality (saving in hard times) led to collective irrationality (an unbreakable cycle of economic decline). Keynes believed the government should support the economy. While Keynes generally endorsed free-market capitalism, the Depression’s unique challenges required unique solutions. Keynes argued that only the government had the resources to spend the money that individual consumers and businesses could not, and so break the cycle. This approach proved relevant in the 1930s and ’40s. The New Deal government relief programs of President Franklin D. Roosevelt were designed to stimulate the economy in the early 1930s, while cuts to the federal budget in the late ’30s caused an immediate economic downturn. Extensive government spending funding World War II coincided with the end of the Depression. While some Keynesian policies had mixed results, the overall picture seemed to confirm Keynes’s arguments, and until the 1970s, Keynesianism predominated American economics. The “Great Society” domestic social programs — including Medicare and education funding — reflected Keynesian thinking. So too did the establishment of many of the institutions that form the basis of international trade and finance, such as the International Monetary Fund and the World Bank. While the 1980s and '90s saw a resurgence in "classical" economic theories closer to Smith than to Keynes, the recent "recession" presents a new opportunity to debate whether Keynesian economics are still viable.

4.8 THE POWER OF ECONOMICS

Let's return to our initial question: What choices do you face in the ordinary business of your life? Smith, Marx, and Keynes all explained how individual choices, conscious or otherwise, fit into a higher order, affecting not only those who make them but also their families, communities, countries, and even the world. Over time, many other thinkers have developed their own distinct models and agendas for explaining and managing economic activity.

The power of economics lies in its ability to reveal the complex workings of society. The idea that we are all touched by economics is perhaps best summarized in a quote from Keynes himself:

The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back.

(The General Theory of Employment, Interest and Money, p. 383)

As society moves about the ordinary business of life, economics always hums along in the background; it is observed by some, influenced by others, yet it affects everybody.

4.9 MARXIAN V NEOCLASSICAL ECONOMICS

Economics is a broad and always developing subject, and there have been many schools of economic thought over the years. Today we'll be looking at two prominent schools that are relevant for modern economists, Marxian and neoclassical economics, to see how they differ and why they both continue to be of interest despite their many differences.

History of the theories

Marxian economics is, as the name suggests, a school of thought based on the work of Karl Marx. During the 1800s Marx wrote extensively in the area of political philosophy looking at labour and the economy, and particularly focused on the power dynamics between workers and the ruling class. This work was a reaction against the classical view of economics developed by theorists such as Adam Smith, an early pro-free market theorist who believed the invisible hand of the market would benefit society.

The Marxian approach to economics rejects this framework and instead considers the construction of value within a capitalist society. Marx was especially concerned with the rights of workers, who create value through their labour but do not gain the full rewards from this value. Instead, labour is exploited by members of the ruling class for their own interest. Unlike Smith, who believed in a laissez-faire approach to economics and argued that the market would eventually correct any unjust imbalances, Marx argued that capitalist society is specifically structured in order to extract value from the working class by means of labour for the benefit of the ruling class, and that this exploitation is not a bug that will eventually be worked out but an essential feature of capitalism.

By contrast, neoclassical economics emphasises individual rationality and the maximisation of profit and is one of the primary models of economics used by those in the field today. The approach was developed throughout the 1800s but was not named until 1900, when Thorstein Veblen wrote an article discussing various schools of economics. The essential principle of neoclassical economics is that every individual will attempt to maximise their personal satisfaction through the means that are available to them – in a capitalist society, that will be primarily through the gaining and spending of money – and that individuals will make informed judgements about economic decisions which can be understood rationally.

This individualised approach to economics was new and coincided with the emergence of both psychology and sociology, which suggested that individual behaviour could be understood as rational and that it was informed by the particular needs and desires of the person in question. Individual differences were being studied for the first time in Western post-Enlightenment culture, paving the way for a theory of economics which used concepts of rationality and individual preferences.

Key players in the fields

The most prominent figure in the history of Marxian economics is Karl Marx, obviously enough. His contemporary, the philosopher Friedrich Engels, was also a formative influence on the economic critiques of capitalism, contributing to Marx's books. Another key figure from just before their time is Georg Hegel, a philosopher whose method of dialectics was used by Marx to understand the relation of society and individuals.

However, Marxian economics is not merely a historical field. Modern-day thinkers still make use of Marxist insights to understand economics. This approach tends to create some confusion, as the public tends to assume that anyone discussing Marxian economics is themselves a Marxist, and that Marxism is synonymous with communism – and a totalitarian communism at that. In fact, Marxian economics is a tool used by many economists who may or may not consider themselves politically Marxist as a way to understand economics under capitalism. An important related school of thought was the neo-Marxian economists who came to prominence in the 1970s and 1980s, particularly those writing in the journal Monthly Review, who used techniques of neoclassical economics such as game theory and mathematical modelling to examine Marxist concepts of exploitation or conflict between classes.

Neoclassical economics developed from the classical economics of the 18th and 19th centuries, including the work of Smith, which underwent a period known as the marginal revolution. Around the late 1800s, economic theorists began to examine concepts of utility and marginalism, referring respectively to the measuring of worth or value on an individual basis and the discrepancy between the values of the same goods or service to different individuals. This approach was influenced by philosophy also, and in particular by Jeremy Bentham's concept of utilitarianism which sought to maximise the happiness of as many people as possible. The ideas of what created happiness for any particular person – which came to be described in the concept of utility – was important for both ethical and economic theories.

After this initial period of development of neoclassical thought, the school was refined in the 1930s by two key figures, Joan Robinson and Edward H. Chamberlin, who introduced the concept of imperfect competition. This describes certain situations in which the free market is not optimised, for example due to one company holding a monopoly. Further refinements to the school were made through the 1970s with the development of econometrics, a field which applied statistical models to economics, which was used to measure the changes in the price of goods and services. This lead to the formation of the field of macroeconomics, which studied economic systems as a whole. Eventually, neoclassical microeconomics and Keynesian macroeconomics were brought together to form the dominant paradigm in economics today.

Key differences in outlook

Marxian economics is to some extent based more in politics than in economics, in that it is a critique of our capitalist political system as well as our economic system. It has an emphasis on ethics and human rights, with concerns of fairness, justice, and equality. This has lead to a situation in which critics of Marxian economics, such as Ladislaus von Bortkiewicz, often focus on the problems with Marx's labour theory of value and argue that his theories are internally inconsistent – which is widely accepted by both sides as an accurate criticism. Pro-Marxist writers, however, respond that the details of the theories are not important – it is the moral imperative to correct power imbalances in society which is the real point of the approach. In this way, Marxist approaches generally are more based in ethics than in economics. However, even today the concept of power differentials between the individual and societal forces are used in understanding issues such how individuals interact with credit markets when constrained by their financial situations. Marx's work can be seen as an early precursor to microeconomics, with his theories anticipating questions that would later be answered through mathematics.

Neoclassical economics, on the other hand, is more based in the principals of mathematics and is the major influence on the field we traditionally think of as economics. With the rise of econometrics, modern economic theories seek to explain the choices of individuals and the way that these choices affect and are affected by society more broadly. There is, therefore, less concern with moral questions of “ought”, and more focus on a descriptive understanding of “is”. However, the framework of an individual as a rational actor who makes choices to maximise their utility is in tension with the modern understanding of psychology, in which individuals frequently do not act purely rationally but are strongly swayed in their actions by the norms around them. A critique of the neoclassical approach is therefore that despite its claims to objectivity through mathematical analysis, it is in fact just as much of a theoretical tool as Marxian economics.

4.9.1 Criticism:

Neoclassical economics is sometimes criticized for having a normative bias. In this view, it does not focus on explaining actual economies, but instead on describing a theoretical world in which Pareto optimality applies.

Perhaps the strongest criticism lies in its disregard for the physical limits of the Earth and its ecosphere which are the physical container of all human economies. This disregard becomes hot denial by neoclassical economists when limits are asserted, since to accept such limits creates fundamental contradictions with the foundational presumptions that growth in scale of the human economy forever is both possible and desirable. The disregard/denial of limits includes both resources and "waste sinks", the capacity to absorb human waste products and man-made toxins.

The assumption that individuals act rationally may be viewed as ignoring important aspects of human behavior. Many see the "economic man" as being quite different from real people.[citation needed] Many economists, even contemporaries, have criticized this model of economic man. Thorstein Veblen put it most sardonically that neoclassical economics assumes a person to be:

[A] lightning calculator of pleasures and pains, who oscillates like a homogeneous globule of desire of happiness under the impulse of stimuli that shift about the area, but leave him intact.

(Non-rational decision-making is the subject of behavioral economics.)

Large corporations might perhaps come closer to the neoclassical ideal of profit maximization, but this is not necessarily viewed as desirable if this comes at the expense of neglect of wider social issues.

Problems exist with making the neoclassical general equilibrium theory compatible with an economy that develops over time and includes capital goods. This was explored in a major debate in the 1960s—the "Cambridge capital controversy"—about the validity of neoclassical economics, with an emphasis on economic growth, capital, aggregate theory, and the marginal productivity theory of distribution. There were also internal attempts by neoclassical economists to extend the Arrow-Debreu model to disequilibrium investigations of stability and uniqueness. However a result known as the Sonnenschein–Mantel–Debreu theorem suggests that the assumptions that must be made to ensure that equilibrium is stable and unique are quite restrictive.

Neoclassical economics is also often seen as relying too heavily on complex mathematical models, such as those used in general equilibrium theory, without enough regard to whether these actually describe the real economy. Many see an attempt to model a system as complex as a modern economy by a mathematical model as unrealistic and doomed to failure. A famous answer to this criticism is Milton Friedman's claim that theories should be judged by their ability to predict events rather than by the realism of their assumptions. Mathematical models also include those in game theory, linear programming, and econometrics. Some see mathematical models used in contemporary research in mainstream economics as having transcended neoclassical economics, while others disagree. Critics of neoclassical economics are divided into those who think that highly mathematical method is inherently wrong and those who think that mathematical method is potentially good even if contemporary methods have problems.

In general, allegedly overly unrealistic assumptions are one of the most common criticisms towards neoclassical economics. It is fair to say that many (but not all) of these criticisms can only be directed towards a subset of the neoclassical models (for example, there are many neoclassical models where unregulated markets fail to achieve Pareto-optimality and there has recently been an increased interest in modeling non-rational decision making). Its disregard for social reality and its alleged role in aiding the elites to widen the wealth gap and social inequality is also frequently criticized.

It has been argued within the field of ecological economics that the neoclassical economic system is by nature dysfunctional since it holds the destruction of the natural world through the accelerating consumption of non-renewable resources as well as the exhaustion of the "waste sinks" of the ecosphere as "externalities" that are nowhere taken into account in the theory.

Check Your Progress 2

Note : i) Use the space given below for your answers.

ii) Check your answer with the model answers given at the end of the unit.

1. How do know Karl Marx?

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2. How do know John Maynard Keynes?

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3. Discuss The Power of Economics.

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4. Describe Marxian v Neoclassical Economics.

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4.10 LET US SUM UP

Despite their many differences, both Marxian and neoclassical economics are powerful theoretical tools for understanding the ways in which individuals interact with each other, power structures in society, and financial systems. While neoclassical economics is undoubtedly the major theoretical force in the study of economics today, there are still important insights from Marxian economics which can be used to explain various phenomena that are observed in society.

4.11 KEY WORDS

Phenomena: A phenomenon is "an observable fact or event". The term came into its modern philosophical usage through Immanuel Kant, who contrasted it with the noumenon. In contrast to a phenomenon, a noumenon cannot be directly observed.

Marxian: Marxist philosophy or Marxist theory are works in philosophy that are strongly influenced by Karl Marx's materialist approach to theory, or works written by Marxists.

4.12 QUESTIONS FOR REVIEW

1. How do know about the Economic Models for the Modern World?
2. Discuss the Economic Thought vs. Economic Behavior
3. How do you know The Economics of the Hunt?
4. Describe Adam Smith
5. How do know Karl Marx?
6. How do know John Maynard Keynes
7. Discuss The Power of Economics
8. Describe Marxian v Neoclassical Economics.

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4.14 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress 1

1. See Section 4.2
2. See Section 4.3
3. See Section 4.4
4. See Section 4.5

Check Your Progress 1

1. See Section 4.6
2. See Section 4.7
3. See Section 4.8
4. See Section 4.9

UNIT 5: THE CONCEPTS AND THEORIES OF DEVELOPMENT

STRUCTURE

5.0 OBJECTIVES

After going through this unit, you will be able to:

- Discuss the classical theories of economic development;
- Distinguish among the theories of several classical economists like Smith, Ricardo, Malthus, Mill and Marx;
- Compare the analytical devices and the visions about society that these classical economists had; and
- Critically examine the strengths and weaknesses of each of these theories.

5.1 INTRODUCTION

The Classical School of economic thought was formalised by Adam Smith, Malthus, Ricardo, Mill and Say, who developed the classical theory of development. However, there are distinctions in terms of the emphasis laid by each thinker to the classical theory of development. While Malthus and Mill emphasised the demand side, Smith, Ricardo and Say proposed a supply side growth models. In the present unit, we discuss the models propounded by Smith, Ricardo, Mill and Malthus. We go further and include Marx's ideas on development who also gave us the stages of economic development. We now discuss all these models one by one.

5.2 ADAM SMITH'S THEORY OF ECONOMIC DEVELOPMENT

Adam Smith is regarded as the foremost classical economist. His monumental work, An Enquiry into the nature and Cause of Wealth of nations published in 1776, was primarily concerned with the problem of Economics of Development. Though he did not expound and systematic growth theory, yet a coherent theory has been constructed by later day economists. Smith posited a supply-side driven model of growth. Succinctly we can set out the story via the simplest of production functions: $Y = f(L, K, T)$ where Y is output, L is labour, K is capital and T is land, so output is related to labour and capital and land inputs. Consequently output growth (gY) was driven by population growth (gL), investment (gK), land growth (gT) and increases in overall productivity (gf). Succinctly: $gY = \varphi(gf, gK, gL, gT)$

5.2.1 Assumptions

Smith proposed that

a) Population growth, in the traditional manner of the time, was endogenous. It depended on the sustenance available to accommodate the increasing workforce.

b) Investment was also endogenous; determined by the rate of savings (mostly by capitalists);

c) Land growth was dependent on conquest of new lands (e.g. colonisation) or technological improvements of fertility of old lands.

d) Technological progress could also increase growth overall; Smith's famous thesis that the division of labour or specialisation improves growth was a fundamental argument.

e) Smith also saw improvements in machinery and international trade as engines of
growth as they facilitated further specialisation.

f) He also assumed the existence of perfect competition.

5.2.2 Main Features

Natural law – lassiez-faire and self interest leads to Development.– Adam Smith believed in the doctrine of ‘Natural law’ in economics affairs. He regarded every person as the best judge of his own interest who should be left to pursue it to her own advantage. In furthering her own self interest she/he would also further the common good. In pursuance of this, each individual was led by an ‘invisible hand’. “It is not to the benevolence of the baker but to his self-interest that we owe our bread”, said Smith. Since every individual if left free will seek to maximise his own wealth, therefore all individuals, if left free, will maximise aggregate wealth. Smith was naturally opposed to any government interventions in industry and commerce. He was a staunch supporter of free trade and advocated the policy of laissez-faire in economics affairs. The “invisible hand” – the automatic equilibrating mechanism of the perfectly competitive market tended to maximise national wealth.

Division of Labour – Division of labour increases productivity which depends upon the size of the market. – Division of labour is the starting point of Smith’s theory of economic growth. It is division of labour that results in the greatest improvement in the productive powers of labour. The attributes of this increase in productivity are (i) the increase in the dexterity of every worker; (ii) the saving in time to produce goods; and (iii) to the inventions of large number of labour saving machines. The last cause to increase in productivity stems not from labour but from capital. Therefore in Smith’s scheme; it is improved technology that leads to division of labour which, however, depends on the size of the market.

Process of Capital Accumulation – Division of labour leads to capital accumulation and capital accumulation leads to economics of development – Smith, however, emphasised that capital accumulation must precede the introduction of division of labour. He wrote “As the accumulation of stock must, in the nature of things, be previous to the division of labour, so that labour can be more and more sub-divided in proportion only as stock is previously more and more accumulated”. Like the modern economists, the classical economists regarded capital accumulation as a necessary condition for economics of development. Hence the problem of economics of development was largely the ability of the people to save more and invest more in a country. As Smith said, “that portion which a person annually saves is immediately employed as a capital.” But since almost all saving resulted from capital investments or the renting of land; only capitalists and landlords were held to be capable of saving. The labouring classes were considered to be incapable of saving. This belief was based on the ‘Iron Law of Wages”. The classical economists also believed in the existence of ‘wages fund’. The idea was that ‘wages’ tend to equal the amount necessary for the subsistence of the labourers. If the total wages fund at any time becomes higher than the subsistence level, the labour force will increase, competitions for employment will become keener and wages will come down to the subsistence level.

Why do capitalists make investment? – Investment is made to earn profits – According to classical economists, investment were made because the capitalists expected to earn profits on them; and future expectations with regard to profits depended on the present climate for investment as well as actual profit. But what is the behaviour of profits during the development process? Smith believed that profits tend to fall with economic progress when the rate of capital accumulation increases. Increasing competitions among capitalists tends to lower profits. Thus with the growth of economy's capital stock, competition among entrepreneurs for scarce labour tends to bid up wages and thereby lowers profits.

Interest – Regarding the role of interest in economics of development, Smith wrote that with the increase in prosperity, progress and populations the rate of interest falls and as a result the supply of capital is augmented. The reason being that with the fall in interest rate the moneylenders will lend more to earn more interest. Thus the quantity of capital for lending will increase with the fall in the rate of interest. But when the rate of interest falls considerably the moneylenders are unable to lend more in order to earn more to maintain their standard of living. Under the circumstances they will themselves start investing and become entrepreneurs. Thus even with the fall in the rate of interest there is increase in capital accumulation and economic progress

Agents of Growth – According to Smith, farmers, producers and businessman are the agents of progress and economic growth. The functions of these three are, however, interrelated. To Smith, development of agriculture leads to increase in construction works, and commerce. When agricultural surplus arises as a result of economics of development, the demand for commercial services and manufactured articles rises. This leads to commercial progress and the establishment of manufactured industries. On the other hand, their development leads to increase in agricultural productions when farmers use advanced production techniques.

Shortage of natural resources stops growth – According to Smith, the process of growth is cumulative. When there is prosperity as a result of progress in agriculture, manufacturing industries and commerce, it leads to capital accumulations, technical progress, increase in population expansions of markets, division of labour and rise in profits continuously. But this process is not endless. It is the scarcity of natural resources that finally stops growth. Competition among businessmen would bring profits as low as possible. Once profits fall, they continue to fall. Investment also starts declining and the end result of capitalism is the stationary state. When this happens capital accumulation stops; populations becomes stationery, profits are the minimum; wages are at the subsistence level; there is no change in per capita income and production, and the economy reaches the state of stagnation.

5.2.3 A Critical Appraisal

Smith's model has the great merit of pointing out 'how economic growth came about and what factors and policies impede it'. In particular, he pointed out the importance of parsimony in saving and capital accumulation; of improved technology, division of labour and expansion of market in production; and of the process of balanced growth in the interdependence of farmers, traders and producers. Despite these merits, it has certain weaknesses.

1) Rigid division of Society: Smith's theory is based on the socio-economic environment prevailing is Great Britain and certain parts of Europe. It assumes the existence of a rigid division of society between capitalists (Including land lords) and labourers. But the middle class occupies an important place in modern society. Thus, this theory neglects the role of middle class.

2) One sided saving base: According to Smith, Capitalists, landlords and money lenders save. This is, however, a one-sided base of saving because it did not occur to him that the major source of savings in our

advance society was the income receivers and not the capitalists and landlords.

3) Unrealistic assumption of perfect competition: Smith's whole model is based upon the unrealistic assumption of perfect competition. The laissez-faire policy of perfect competition is not to be found in any economy. Rather, a number of restrictions are imposed on the private sector, and on internal and international trade in every country of the world.

4) Neglect of Entrepreneur: Smith neglects the role of entrepreneur is development. This is a serous defect as his theory. The entrepreneur is the focal point of development, as pointed out by Schumpeter. It is the entrepreneur who organizes and brings about innovations there by leading to capital formation.

5) Unrealistic Assumption of Stationery State: Smith is of the view that the end result of a capitalist economy is the stationery state. It implies that there is change in such an economy but around a point of equilibrium. There is progress but it is steady, uniform and regular like a tree. But this explanation of the process of development is not satisfactory because dev. takes place by 'fits and starts' and is not uniform and steady. Thus the assumption of stationary state is unrealistic.

5.3 RICARDIAN THEORY OF ECONOMIC DEVELOPMENT

Ricardo presented his view on Economic Development in an unsystematic manner in his book The Principles of Political Economy and Taxation. Like Smith, Ricardo never propounded any theory of development; he simply discussed the theory of distribution. However, Smith's model of growth remained the predominant model of Classical Growth. David Ricardo (1817) modified it by including diminishing returns to land.

5.3.1 Assumptions

The assumptions of his model included: a) all land is used for production of corn, b) law of diminishing returns operates, c) supply of land is fixed, d) demand for corn is perfectly is elastic, e) labour and capital are variable inputs, f) state of technical knowledge is given, g) all workers are paid a subsistence wage, h) supply price and labour is given and constant, i) demand for labour depends upon accumulations, j) capital accumulation results from profit and k) there is perfect competition.

5.3.2 Main Features

The Ricardian model is based on the interrelation of three groups in the economy. They are landlords, capitalists and labourers among whom the entire produce of land is distributed.

Rent, Profit and Wages – (a) rent is that portion of the produce of earth which is paid to the landlord for the use of original and indestructible powers of the soil. It is the difference between average and marginal product. If all the land had the same properties of unlimited in supply and uniform in quality, no charge would make for its use. (b) The wage rate is determined by wage fund divided by number of workers employed at the subsistence level. According to the model, out of the total corn produced rent has the first right and the residual is distributed between wage and profit while interest is included in profit.

Capital Accumulation – According to Ricardo capital accumulation is the outcome of profit because profit leads to saving of wealth which is used for capital formations. Capital formation depends upon will to save and capacity to save which is more important. The larger the surplus i.e. profit, the larger will be capacity to save.

i) The Profit Rate - The rate of profit is equal to the ratio of profit to capital employed. But since capital consists of only working capital, it is equal to the wage bill. So long as the rate of profit is positive, capital accumulation will take place. In reality, profits depend upon wages, wages on price of corn and the price of corn depends upon the fertility of the marginal land. So there is an inverse relation between wages and profits. When due to improvement in agriculture, production increases, the price of corn falls and subsistence wages also fall and profits will increase leading to capital accumulation. This will raise demand for labourers raising wage rate and reducing profits.

ii) Increase in Wages – The wage rate increases when the prices of commodities forming the subsistence of the workers increase. As the demand for food increases, less fertile land is brought under control and more labourers are needed raising wage rate. Thus wages would rise with the increase in the price of corn. In a situation rent also increases, with the decline of capitalists' profit capital accumulation also declines.

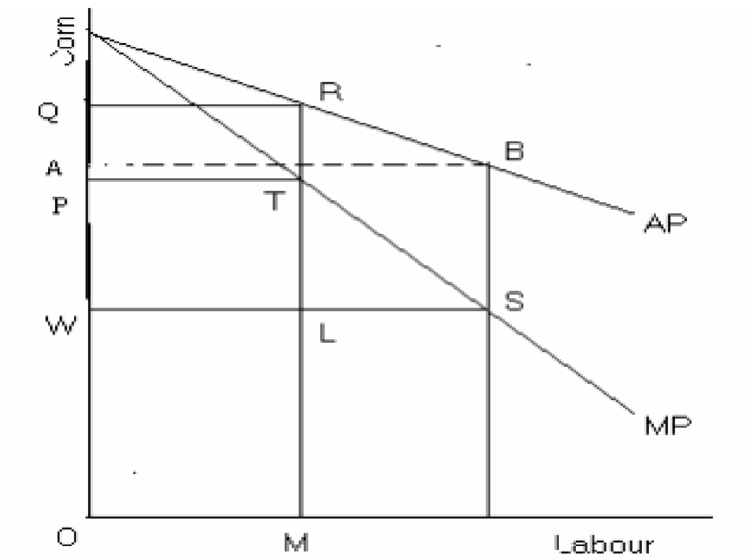
iii) Declining profits in other industries – The profits of the farmer regulate the profits of all other trades. Therefore the money rate of profit earned on capital must be equal both in agriculture and industry. If profit rate declines in the agricultural sector it will also decline is the manufacturing industry.

Other Sources of Capital Accumulation: According to Ricardo economic development depends upon difference between production and consumption. Capital may be increased by an increased production or by a diminished unproductive consumption. However, the productivity of labour may be increased through technological changes and better organisation. It is in this way that capital accumulation can be increased. But the use of more machines employs less workers leading to unemployment. So Ricardo regards technological conditions as given and constant.

a) Taxes:- Taxes are a source of capital accumulation in the hands of government. According to Ricardo, taxes are to be levied to reduce conspicuous consumption. Otherwise the imposition of taxes on capitalists land lords and labourers will transfer resources from these groups to the government, adversely effecting investment. So he does not favour the imposition of taxes.

b) Free Trade:- Ricardo is in favour of free trade. The profit rate can be saved from declining by importing corn. The capital accumulation therefore continues to be high. In this way the resources of the world can be used more efficiently through trade.

Stationary State: According to Ricardo there is natural tendency for the rate of profit to fall in the economy so that the country ultimately reaches the stationary state. When capital accumulation rises, with increase in profits, production increases which raises the wage fund, population increases, which raise the demand for corn and its price. Inferior grades of land are cultivated. Rents on superior land increase and reduce the share of the capitalists and labourers. Profits decline and wages fall to subsistence. The process of rising rents and falling profits continues till the output from the marginal land just covers the wages of labour employed and profits are zero. There is no accumulation of capital, no increase in population and wage rate but rent is extremely high and there is economic stagnation. In figure 5.1, AP and MP represents average product and marginal wage bill is OWLM at the subsistence level.



Total profits are WPTL. product OM labour is employed OQRM corn is produced. Share of rent is PQRT and Total output increases with economic development. This leads to increase in wage fund leading to increase in amount of labour. Demand for corn goes up raising price of corn. OM1 labour is employed, total output is OABM1, and there are no profits. Share of rent has increased.

5.3.3 A Critical Appraisal

Though weak in some situations, Ricardo’s theory is of great importance. He emphasized the importance of agricultural development in economic growth because industrial development depends upon it. He emphasizes the importance of high rate “of profit for economic development because capital accumulation depends upon it. Modern economists also recognise this fact. Saving must be there for higher capital accumulation. He has also given importance to foreign trade. He was against colonial trade because it depresses the industry of all other countries.

He has given us a dynamic theory which analyses the effects of change in different variables on economic development such as population, wage, rent, profit etc. Ricardo's portrait however, is somewhat more pessimistic than Smith's. The ultimately dismal portrait, however, was painted by T.R. Malthus (1796) with his famous claim that population growth was not so easily checked and would quickly outstrip growth and cause increasing misery all around. John Stuart Mill improved little upon Ricardo, perhaps only to emphasize the need for control of population growth to put a brake on declining growth and his view of stationary states as wonderful things to achieve. Despite this the theory has certain weaknesses also.

1) Neglects the impact of technology: Ricardo pointed out that improved technology in industrial field leads to the displacement of labour and other adverse consequences. But Ricardo failed to visualize the impact that science and technology had on the rapid economic development of the new developed nations.

2) Wrong Notion of Stationary State: The Ricardian view that the system reaches the stationary state automatically is baseless because no economy attains the stationary state is which profits are increasing, production is rising and capital accumulation is taking place.

3) Baseless Notion of Population: The Ricardian view that wage rate can (does) not rise above. The subsistence level is wrong. In western countries there has been rise in wage rate but population has decreased.

4) Unnecessary Importance to the law of Diminishing Returns: Ricardian theory is primarily based on the law of diminishing returns but the rapid increase of farm produce in advanced nations has proved that Ricardo under-estimated the potentialities of technological progress is counteracting diminishing returns to land.

5) Impracticable laissez-faire Policy: According to this theory there should be no government interference and the economy will operate automatically through perfect competition. I reality no economy is free from government interference and in which perfect competition prevails.

6) Neglects Institutional factors and Interest-rate: Institutional factors have been assumed as given but they are crucial in Economic Development and cannot be overlooked. It neglects rate of interest also the does not regard the interest rate as an independent reward of capital but includes it in profits. He does not distinguish between capitalist and entrepreneur.

7) Distribution rather than growth theory: The Ricardian model is not a growth theory but a theory of distribution which determines the share of workers, landlords and capitalists. Even is this he regards the share of land as primary and the residual as the share of labour and profit. He did not determine the share of each factor separately.

8) Land also produces goods other that corn: Ricardo believes that one product corn is produced on land. But this is an old notion because land produces a variety of products other than corn. 9) Capital and labour not fixed co-efficients: The Ricardian assumption that capital and labour are fixed co-efficients of production is not correct. This assumption is invalid.

Check Your Progress 1

1) Give the assumptions of Adam Smith's theory of economic development, and describe its main features.

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2) Critically evaluate the strengths and weaknesses of Smith’s theory of development.

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3) State the assumptions of Ricardo’s theory of development. Compare the Ricardian model with Adam Smith’s theory of development.

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5.4 MALTHUSIAN THEORY OF ECONOMIC DEVELOPMENT

Malthus showed more appreciation than most of his contemporaries of the importance of a distinct and systematic theory of growth. Book I of his Principles of Political Economy was concerned with value and distribution; book II with “The Progress of Wealth”. In his famous work, Malthus posited his hypothesis that (unchecked) population growth always exceeds the growth of means of subsistence. He argued that while population rises geometrically, food supply increases arithmetically. Actual (checked) population growth is kept in line with food supply growth by "positive checks" (starvation, disease and the like, elevating the death rate) and "preventive checks" (i.e. postponement of marriage, etc. that keep down the birth rate), both of which are characterised by "misery and vice". Malthus's hypothesis implied that actual population always has a tendency to push above the food supply. Because of this tendency, any attempt to ameliorate the condition of the lower classes by increasing their incomes or improving agricultural productivity would be fruitless, as the extra means of subsistence would be completely absorbed by an induced boost in population. As long as this tendency remains, Malthus argued, the "perfectibility" of society will always be out of reach. He defines the problem of development as explaining any difference between potential gross national product ("Power of Producing riches") and actual gross national product (actual riches). There is nothing automatic about economic growth, Malthus warns. To say that population growth by itself is enough to bring economic advance is absurd. In the first place, population growth-despite the strength of the psychological and physiological forces tending to bring it down – is an end product of the whole economic process; "an increase of population can not take place without a proportionate or nearly proportionate increase of wealth". As evidenced, that the natural tendency toward population growth is no guarantee that either population or income will grow, he cites examples of Spain, Portugal, Hungry, Turkey, "together with nearly the whole of Asia and Africa and the greatest part of America". Secondly, mere increases in numbers do not provide a stimulus to economic expansion; population growth encourages development only if it brings an increase in effective demand. "A man whose only possession is his labour is, or is not, in demand by those who have the disposal of produce". And the demand for labour, in turn, depends on the rate of capital accumulation.

5.4.1 Effective Demand

In elaborating his theory of effective demand and its relations to savings and investment, Malthus anticipated some of the basic ideas of such modern writers as Keynes and Kalecki. He flatly repudiated 'Say's law', which said in effect that supply creates its own demand and that savings are just a demand for capital goods. Saving in the sense of planned or ex-ante saving or abstinence, means not consuming; and not consuming in itself brings a decline in effective demand, profits and investment. Malthus drew attentions to a circularity of a kind quite different from the one spelled out by the other classical economists, which has been restated more systematically by Kalecki and others. We have national income (or output) equal to profits plus wages. As we know that

$$O = R + W$$

Or $$R = O - W$$

Where R = Profit

W = Wages

O = National output

Since workers, as a class are too poor to save, they spend all their income on consumption. Let us denote workers' consumptions as Cw. Capitalists (Cc), however, do save; these savings create income in so far as they are invested. So we may write,

$$R = (I + C_c + C_w) - C_w = I + C_c \qquad \because O = I + C_c + C_w$$

National income or output is generated by investment, capitalists' consumption and workers' consumption. Profit are national income less wages; wages equal worker's consumption – and so according to Malthus, profits are equal to investment plus capitalists' consumption.

5.4.2 Role of Capital

Malthus, does not, of course, deny the need for saving and investment for economic growth. But he suggests a concept of 'optimum propensity to save'. Up to a certain point saving is needed to finance (without inflation) the investment for which profitable opportunities exist. Beyond that point, however, saving will reduce. Consumer spending to such an extent that investment too will be discouraged. High rates of growth do not occur with high levels of ex-ante saving (abstinence) on the part of the upper income groups, but with high levels of ex-post (realized) savings and investment, which are in large degree the result of growth, and do not require reductions in consumer spending. Like Smith and Ricardo, Malthus also believed in free enterprise and considered that the wealth effects of free trade are very high.

5.4.3 Structural Change

Malthus also noted the phenomenon which much later Colin Clark has stressed; economic development entails structural change of a sort which diminishes the relative importance of agriculture in the economy. He argued that technological progress tends to increase employment and that tapering-off of the growth of income and output causes unemployment. He suggested land reform as one means of expanding output. Malthus envisaged the economy as consisting of two major sectors: industrial and agriculture- the latter triggers the growth of the former.

The Malthusian picture of economic development seems to have been one is which capital was invested in agriculture until all the arable land was brought into cultivation, stocked and improved; after that there were no more opportunities for profitable investment in that sector, and investment opportunities existed only is the industrial sector. Diminishing returns to increased employment on the land could be avoided only if technological progress in the industrial sector was rapid enough, and if enough investment took place, to absorb most of the population growth in the industrial sector and to reduce the cost of living of workers on the land, permitting reductions in their corn (goods) wage rates. Let us assume once again that the rate of technological progress in the industrial sector depends only on the amount of capital available for utilising the steady flow of improvements. Malthus explicitly recognised the possibility of unemployment arising from inadequate investment, so the level of industrial employment can also be treated as a function of investment. Thus we can regard industrial output as depending solely on the amount of capital invested in the indusial sector.

$$O_i = a . Q_i$$

Where Oi is the output of industrial sector, Qi is the amount of capital in industrial sector, and 1/a is the capital-output ration for the sector. Differentiating the above equation with respect to time

$$\delta O_i/\delta t = a . \delta Q_i/\delta t + Q_i . \delta a/\delta t \quad \text{where a is constant}$$

$$\cdot\ \delta O_i/\delta t = a . \delta Q_i/\delta t$$

If technological progress is ‘neutral’, the capital output ratio can be considered as constant and the second term drops out. The trend of industrial output through time depends only on the rate of capital accumulation (investment) in the industrial sector the rate of investment in turn depends upon the level of profits, as we already know; and in this model, the rate of profits will depend on the wage rate (which is turn depends upon the cost of producing wage goods, especially food stuffs) and effective demand, which depends on capitalists’ consumption and investment. Malthus also, makes some suggestions about sectoral interaction in underdeveloped areas, which help to explain why they remain underdeveloped. First, he points out that each sector constitutes the market for the output of the other sector (in the absence of international trade). Thus failure of either sector to expand acts as a drag on the growth of the other; ‘balanced growth’ is necessary if we are to have growth at all. The development of the industrial sector of underdeveloped countries is limited by the poverty of the agricultural sector. The continuing poverty of the peasant agriculture sector does not arise from scarcity of fertile land; poverty persists because large land owners have no incentive for more intensive cultivation with the present limitations of the marker, where as the peasants lack capital that would be needed for efficient cultivation, which alone would permit them to pay enough to induce land lords to rent some of their land. Thus the industrial sector (including large-scale agriculture) remains limited in total size. Because of its land-and-capital intensive nature it provides employment for relatively few people. The bulk of population, meanwhile, lives in poverty by means of labour-intensive peasant agriculture, which provides no effective demand for further growth.

5.4.4 A Critical Appraisal

There is no doubt that Malthus made a valuable contribution to the theory of economic growth. This repudiation of say’s law and emphasizing the importance of effective demand and its relation to saving and investment are indeed noteworthy for their modern touch. A great deal of what he wrote on the subject is applicable to an under-developed economy, especially relating to the theory of dualism.

5.5 J.S. MILL’S THEORY OF ECONOMIC DEVELOPMENT

J.S. Mill was an economist, concerned with the well being of men and women in society. He recognised the relevance of political economy to the outcome but judged its role to be limited. He was a more subtle and original political economist than just refining and updating Smith and Ricardo.

5.5.1 J.S.Mill's Coherent Exposition of the Growth Process

Unlike his predecessors, Mill gave a very coherent exposition of the growth process. He defined in a very orderly way the three agents land, labour and capital followed by the degree of productiveness of his three production agents. Recognising the limited quantity and productiveness of land, he introduced the diminishing returns as the most important proposition in the political economy. However, innovations and inventions are given capable of exercising, "an antagonistic influence on the law of diminishing returns to agricultural labour". Among innovations, he argued for the improved education of the working force, improved system of taxation and land tenure and more sold instruction for the rich classes that would increase their mental energy, generate feelings of public spirit in them and qualify them for constructive roles in society. Mill appears to draw a sharp line between production, determined by scientific principles and distribution, determined by law, customs and other human institutions.

5.5.2 Population and Working Force

There is a kind of paradox in Mill's treatment of population. His basic position is rooted in Malthus and Ricardo; however, he puts to himself a question beyond: What permanently might avoid an 'over-peopled state' with its attendant marginally low wages, poverty, ignorance and degradation particularly acute for women? He favoured a sustained public policy to encourage smaller families, efforts in popular education and ultimately movement to a higher income per capita stationary state. Mill is known in demographic literature as a neo-Malthusian i.e. a believer in birth control. He argued so strongly for limitation of family size that one expects support for birth control to become explicit. In examining the forces that determine the productivity of the working force, he introduced the factors of production with which labour must combine i.e. the quality and availability of the soil and sources of raw materials, as well as the scale and quality of capital equipment. He went further ahead to question: What determines the capacity and willingness of labour to engage in 'steady and regular bodily and mental exertion'? In what ways the workers differ with respect to skill, adaptability, and moral character? He also questioned on the future of the working classes: What can be the effect of the education and the movement of women towards equal rights on the size, quality and composition of the working force? What is the evidence on the relation between labour productivity and profit sharing schemes?

5.5.3 Investment and Technology

Mill starts his exposition of the role of capital in production with a distinction between fixed and working capital. In dealing with profits, he distinguishes three components: interest, insurance against risk and wages of superintendence and then considers the determinants of the minimum profit rates, variations and the tendency of the profit in various sectors towards equality. According to him there is possibility of a decline in unit labour costs with rising wage rates. Mill's views on investment process were considered incomplete by economists like Schumpeter.

5.5.4 Business Cycles

Mill had more to say on business cycles. His concept of the business cycle was firmly anchored in a theory of irrational expectations. He believed that since the calculations of the producers and traders being imperfect, there are always some commodities which are more or less in excess and some are in deficiency. The reason for this being the rising prices, which dupes the producers of riches. But when the illusion vanishes, the commodities are in excess supply and there is a glut of commodities. Thus Mill had a clear sense that an almost periodical cyclical process had been under way in which investment decisions made by individuals operating without full knowledge of the investment decisions of the others and acting in response to the same signals of future loss and profit.

5.5.5 The Stages of and Limits to Growth

According to Rostow, Mill has given a remarkable exercise in dynamic analysis, which can be defined in terms of cases. Case 1: population increases; capital and the arts of production stationary. Real wages decline and rents rise. Case 2: population stationary; capital increases and the arts of production stationary. Real wages rise, demand for food increases under conditions of diminishing returns, rents rise but profits fall. Case 3: population and capital increasing equally and the arts of production stationary. Real wages remain constant, profit rate will fall and rents rise. Case 4: population and capital stationary; the arts of production progress. Real wages rise, rents decline and profits are unchanged. Case 5: population, capital and the arts of production increase together. Here only rents would increase Thus Mill concludes that the economical progress of a society constituted of landlords, capitalists and labourers and leading to agricultural improvement tends to the progressive enrichment of landlords. Labourer's subsistence tends to rise and profits to fall. In contrast to his predecessors Mill idea of stationary state was a virtue that had the possibilities opened up in general and the elevation of the intellectual and social position of the working class and by birth control. In a nutshell, it was in an effort to stop economics from becoming a mish-mash of theories that John Stuart Mill (1848) wrote his famous textbook, restating the Ricardian Classical doctrines fully and explicitly and thereby contributing to the classical growth theory. Ricardo's system, however, was improved very little by his followers. Perhaps only Karl Marx (1867-94) added insights of any great weight.

Check Your Progress 2

1) Critically examine the contribution of Malthus to the theory of economic development.

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2) Describe J.S. Mills's theory of economic development and briefly state his views on the business cycles.

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5.6 MARXIAN THEORY OF ECONOMIC DEVELOPMENT

Karl Marx (1867-1894) modified the classical picture once again. For "modern" growth theory, Marx's achievement was critical because he not only provided, through his famous "reproduction" schema, , but he did so in a multi-sectoral context and, in the process, contributed critical ingredients such as the concept of a "steadystate" growth equilibrium. He explains how a particular capitalist economic system functions. Marx's theory differed from the earlier classical economists in many ways. Firstly, unlike Smith or Ricardo, Marx did not believe that labour supply was endogenous to the wage. As a result, Marx had wages determined not by necessity or "natural/cultural" factors but rather by bargaining between capitalists and workers. This process however was considered to be influenced by the amount of unemployed labourers in the economy (the "reserve army of labour", as he put it). Marx also argued profits as the determinants of savings and capital accumulation.

5.6.1 Organic Composition of Capital and Surplus value

Like the classical economists, Marx believed there was a declining rate of profit over the long-term. The long-run tendency for the rate of profit to decline is brought about not by competition increasing wages (as in Smith), nor by the diminishing marginal productivity of land (as in Ricardo), but rather by the "rising organic composition of capital". Marx defined the "organic composition of capital" as the ratio of what he called constant capital to variable capital. It is important to realise that constant capital is not what we today call fixed capital, but rather circulating capital such as raw materials. Marx's "variable capital" is defined as advances to labour, i.e. total wage payments, or heuristically, $v = wL$ (where w is wages and L is labour employed). Thus according to Marx, total value of output is

$y = c + v + s$

where y is output, 'c' constant capital, 'v' variable capital and 's' surplus value. The rate of profits, Marx claimed, is defined as:

$$r = s/(v + c)$$

where r is the rate of profit, s is the surplus, and (v+c) are total advances (constant and variable). Surplus, s, is the amount of total output produced above total advances, or

$$s = y - (v+c),$$

where y is total output. It is important to note that for Marx only labour produces surplus value. This was to become a sore point of debate between the Neo-Ricardians like Sraffa, Pasinetti and Garegnani and the Neo-Marxians like Baran, Sweezy, Mandel, Amin, Frank, Levine, Prebisch, and Furtado, in later years. Marx called the ratio of surplus to variable capital, s/v, the "exploitation rate" (surplus produced for every dollar spent on labour). Marx referred to the ratio of constant to variable capital, c/v, as the organic composition of capital (which can be viewed as a sort of capital-labour ratio). Notice that dividing numerator and denominator of r by v we obtain:

$$r = (s/v)(v/(v+c)))$$

so the rate of profit can be expressed as a positive function of the exploitation rate (s/v) and a negative function of the organic composition of capital (c/v)).

5.6.2 Declining Rate of Profit

Marx then argued that the exploitation rate (s/v) tended to be fixed, while the organic composition of capital (c/v) tended to rise over time, thus the rate of profit has a tendency to decline. Why? The basic logic can be as follows. For simplicity, assume a static economy (no labour supply growth). As the surplus accrues to capitalists and, necessarily, capitalists invest that surplus into expanding production, then output will rise over time while the labour supply remains constant. Thus, the labour market gets gradually "tighter" and so wages will rise. Thus, v (= wL) or variable capital rises and r or profits fall. But this decline in r is temporary. There are forces at work which will restore profit rate what are these forces? Marx argued, capitalists can boost their profit rate back up by introducing labour-saving machinery into production -- thereby leading to unemployment. There are two effects of this. a) notice that v declines because of increasing labour (L). But, concurrently, the employment of machinery implies that constant capital, c, rises. Thus, the introduction of labour-saving machinery does not seem to change anything: the fall in v from less labour is counteracted by the rise in c, so it seems that c/v stays constant. b) the concurrent expansion in the unemployed -- the "reserve army of labour" -- will, by itself, influence the labour bargaining process and reduce wages down to subsistence. Thus v declines further. So, on the whole, the net effect of a labour-saving technology is to raise c/v, i.e. to reduce the rate of profit. But notice that v declines further because labour is released. So, both the w and the L part of v = wL declines. But, concurrently, the employment of machinery implies that constant capital rises, c rises. Thus, the fall in L is counteracted by the rise in c, so that, on the whole, v declines. So, in sum, the organic composition of capital, c/v, falls. Profits, consequently, are increased. Thus, the L part of v = wL declines and so r = s/(v+c) comes back up. There is a double effect in that, of course, the release of labour is not automatically absorbed by higher investment so that a "reserve army of labour" is created. In this manner, at the bargaining table, firms will be at an advantage relative to their employees, so that wages decline (or at least are prevented from rising further). But this is merely a temporary respite. Profits will be reinvested, output will grow again, labour markets will tighten once more and the whole process will repeat itself. The problem is that the second time around, there is less labour to lay off. Recall, L was already reduced in the first round. Introducing more machinery reduces L further -- and, via several rounds, further and further -- until there is hardly any more L that can be released. When the system gets to the point that there are no more labourers to be fired, then there is nothing to bring s/v back up. The profit rate declines and firms will begin going bankrupt. The bankruptcy of firms means a sudden release of even more labour and capital into the market, depressing prices tremendously. Firms that remain active will thus be able to buy the bankrupt smaller firms and thus acquire more labour and capital at very cheap rates -- indeed, cheaper than their proper "value". The unemployed, thus, act as a "reserve army of labour" and bring wages back down to a manageable level. However, the introduction of labour-saving capital and laying off of workers means that c rises while v falls, i.e. the organic composition of capital rises. It is easy to notice that a constant s/v and a rising c/v will necessarily reduce the profit rate (to see this, just notice that r can be rewritten as:

$r = (s/v)(v/(v+c))$).

5.6.3 Increasing Rate of Exploitation

Thus, there is a natural tendency for the rate of profit to fall. One way to prevent this decline in r would be to increase the exploitation rate in proportion to which variable capital declines relative to constant capital. The manner of increasing the exploitation rate, Marx claimed, was up to the devilish imagination of the capitalist. Technological progress in the form of machinery or division of labour was not wholly beneficial way of improving growth either. Marx took on Ricardo's idea that machinery is labour-saving and leads to a disproportional adjustment: the rate of release of labour does not accompany the rate of re-absorption of that labour, so that there tends to be permanent "technological" unemployment which can be used to bring down the wage. One does not even need to undertake it: technological improvement is also a way capitalists can increase their leverage over labour merely by threatening it with mechanisation. Whereas Marx contended that division of labour was a way of generating the "alienation" of the working classes and thus tie them more dependently to the production process - thereby, again, reducing the bargaining position of labour. The issue of trade, another possible check to the decline in profit rate, was seen by Marx as an inducement to produce on an even greater scale - thereby increasing the organic composition of capital further (and reducing profit quicker). The connection between trade with non-capitalist economies to prevent of the decline in profit rate was for later Marxians like Rosa Luxemburg (1913) to propose in their theories of imperialism. However, despite all their efforts, Marx claimed that there were social limits to the extent to which capitalists could increase the exploitation rate, while no such thing limited the growing organic composition of capital. Consequently, Marx envisioned that greater and greater cut-throat competition among capitalists for that declining profit. Then a crisis occurs: large firms buy up the small firms at cheaper rates (i.e. below, and thus the total number of firms declines. This will boost the surplus value as firms can now purchase capital As capital becomes more concentrated in fewer hands, the increasing tendency for capital to be concentrated in fewer and fewer hands, combined with the greater misery of labour would culminate in ever greater "crises" which would destroy capitalism as a whole.

5.6.4 A Critical Appraisal

While Smith, Ricardo and Marx follow different explanations of economic growth; they come to the same conclusion that there is a tendency for the rate of profit on capital to decline with the accumulation of capital. In Ricardian model, the increasing cost of producing wage goods and the growing share of rent in total output leads to declining rate of profit and results in stationary state. In Marxian explanation, the changing organic composition of capital leads to the declining profits and ultimately to crises that threatens growth. The next obvious question is once growth stops what is the way out? Mill answers to this question in Ricardian framework. According to him, export of capital and interaction with other economies will help to maintain the rate of profits and thus growth. In Marxian context, the similar explanation is given to the averting of the crisis. In an advanced capitalist economy, there will be a continuous problem of maintaining high rate of exploitation of labour. As real wages tend to rise, partly due to improvement in productivity and partly due to better organisation of labour; the capitalists tend to export capital to such economies where labour is abundant and cost of reproduction of labour and real wages are lower. As the rate of exploitation is higher, the rate of profit is also higher here for the given rate of organic composition of capital. A crisis thus can be deferred if not averted that will benefit capitalist class. Marx's explanation is, however, subject to criticisms. For example 1) Once the assumption of diminishing returns has been abandoned, a fall in profit is possible but not inevitable. 2) Marx' s explanation of Rate of exploitation is limited by the length of working day, which is not a plausible assumption. 3) the constant capital or 'c' in Marx's framework includes fixed capital (machinery) and other non-labour inputs. The increased use of machinery would not lead to rise in organic composition of capital, if the costs of other non-labour inputs fall. 4) Technological progress which is labour saving will also lead to more economically produced durable goods and this mat not necessarily lead to rise in organic composition of capital.

Check Your Progress 3

1) Compare Marx's theory of economic development with the Ricardian theory.

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2) Explain Marx's theory of the increasing rate of exploitation and declining rate of profit in a capitalist economy.

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5.7 LET US SUM UP

This unit provided a detailed discussion of the theories of several classical economists. Adam Smith, who is often considered the father of modern economics, started the school of thought that we now call classical. These economists were not only laying the foundations of economic theory, but also giving an analysis of longterm development of society, or 'the laws of motion of society', as Marx put it. The classical economists combined economic analysis with moral philosophy and did not separate economic forces as a candidate explanation for development from social and political forces. The unit presented the theories of development of some of the important classical economists. The unit discussed the theories of Smith, Ricardo, Mill, Malthus and Marx. We saw that these economists had by and large similar views and visions of the economy, one of which was the falling rate of profit, although the reasons why it was to eventually take place differed from economists to economist. For example, for Ricardo it was diminishing returns to land, for Malthus, it was the rate of growth of population which he thought would outstrip the rate of growth of food supply. For Marx, it was the increase in the rate of exploitation and a rise in surplus value. Since most of the classical economists predicted a dire picture of the economy, economics itself came to be called the ‘dismal science’. The unit discussed the assumptions, characteristic features of each of the theories and also presented a critical appraisal of each of the theories. In the case of Mill, it discussed the concept of investment and business cycles that Mill provided in his theory. The unit discussed the importance accorded by Adam Smith to freedom of enterprise, free trade and the division of labour. It discussed Ricardo’s theory of development being actually a theory of distribution and how Ricardo put forward the theory of diminishing returns to land and his theory of rent. The unit finally discussed Marx’s critical analysis of capitalism, and how he put forward a theory of capitalist development, a development process that he thought contained the seeds of its own destruction because of a rising rate of exploitation and falling rate of profit.

5.8 KEY WORDS

Constant Capital : Circulating capital, such as raw material. Diminishing Returns : The additional output produced by the addition of one more unit of a factor. Diminishing Returns says that after some time the additional output rises but by successively smaller amount and eventually it actually falls Organic composition of Capital : The ratio of constant to variable capital. Variable capital : Advances to labour, that is, the wage fund Lassiez-faire : A policy which seeks to let people be free to pursue their own self- interest

5.9 QUESTIONS FOR REVIEW

1) Give the assumptions of Adam Smith's theory of economic development, and describe its main features.
2) Critically evaluate the strengths and weaknesses of Smith's theory of development.
3) State the assumptions of Ricardo's theory of development. Compare the Ricardian model with Adam Smith's theory of development.
4) Critically examine the contribution of Malthus to the theory of economic development.
5) Describe J.S. Mills's theory of economic development and briefly state his views on the business cycles.
6) Compare Marx's theory of economic development with the Ricardian theory.
7) Explain Marx's theory of the increasing rate of exploitation and declining rate of profit in a capitalist economy.

5.10 SUGGESTED READINGS AND REFERENCES

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- Dobb, Maurice. (1982). Theories of Value and Distribution since Adam Smith (Indian Reprint) Vikas, New Delhi.
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5.11 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress 1

1) See sub-section 5.2.1 and answer.

2) See sub-section 5.2.3 and answer.

3) See sub-section 5.3.3 and answer.

Check Your Progress 2

1) See section 5.4 and answer.

2) See section 5.5 and answer.

Check Your Progress 3

1) See sub-section 5.6.4 and answer.

2) See sub-sections 5.6.2 and 5.6.3 and answer.

UNIT 6: ORIGIN AND DEVELOPMENT OF CAPITALISM

STRUCTURE

6.0 OBJECTIVES

After this unit, we can able to know:

- Discuss about Capital
- To know the Capitalism
- To discuss the Capitalist Industrialization
- To know about the Industrial Revolution
- To discuss the Theories for the Emergence of Capitalism
- To highlight Different Paths to Industrialization: Britain, France and Germany

- To know the Agriculture and Industrialization: Britain, France and Germany
- To know about The Capitalist Entrepreneur
- To discuss the Bourgeois Culture

6.1 INTRODUCTION

Even as you have read about the advent of capitalism in the form of commercial capitalism in Unit 6, it was in the phase of industrial capitalization that capitalism is said to have achieved its classical form. It is in this context that a brief discussion of the terms like capitalism, capital, capitalist industrialization and industrial revolution has been provided in this Unit. A brief survey of the theories of the emergence of capitalism has been made along with a detailed discussion of capitalist industrialization in different countries of Europe which also took different paths. Definitions of capitalism are legion, contentious, and give rise to disparate and often incompatible explanations of economic history. This is because capitalism is a historical phenomenon. To say this is more than a truism. It implies that capitalism grew over a long period of time. Consequently, historians differ as to the point in time where the phenomenon may be reasonably said to exist. Some scholars take an expansive view, beginning their story in classical antiquity and encompassing all manifestations of profit-seeking trade, investment, and production. Others focus much more narrowly, whether by equating capitalism with a single quality – such as competition, markets, the predominance of money in exchange – or by identifying this form of economic structure with modern factory industrialization as originally exemplified by England during the Industrial Revolution.

A capitalist system implies, in the first place, that property is predominantly in private hands and the allocation of goods, services, and factors of production (land, labour and capital) is made mainly through market mechanisms, with capitalists responding to profit signals, workers to wage incentives, and consumers to prices. In the second place, capitalist economies are highly capitalised. Their stocks of physical capital, education and knowledge are large relative to their income flow and huge when compared with pre-capitalist societies. This is because the most striking characteristic of capitalist performance has been a sustained (although not continuous) upward thrust in productivity and real income per head, which was achieved by a combination of innovation and accumulation. In this respect, capitalism is very different from earlier modes of production or social orders whose property and other social institutions were oriented to preserve equilibrium and were less able to afford the risks of change. Historically, the rise of this new economic system was a complex and pervasive process, eventually involving nearly every facet of economic life throughout Europe. It was also protracted, stretching across the entire early modern period. The development of capitalism entailed a revolution in economic relations, institutions, and attitudes; on occasion it involved violence on the part of proponents and opponents alike; and it gave birth to new social classes. None of this occurred quickly or abruptly, however. The novel form of production grew up within the old, gradually supplanting rather than suddenly and dramatically overthrowing it. Hence its date of birth and critical moments of maturation are difficult to specify. Nor was the advance of capitalism steady or uniform. On the contrary, it was a decidedly uneven procedure, one that suffered disruptions, crises, even reversals. The process unfolded in disparate fashion across nations, regions and sectors of the economy; even within the same industry or farming district capitalist and non-capitalist methods might be found cheek by jowl. Despite the many difficulties of periodization and causal explanation, there is agreement among historians of capitalism about certain features of this history. Among these agreed-upon features are the following: The expanding market economies of medieval Europe, with various institutional accompaniments (such as the development of cities, merchant houses, and guilds) were the foundation on which later capitalism developed. Somewhere in the late Middle Ages the economic centre of Europe shifted from the Mediterranean littoral to Northern Europe, a shift that became further stabilized in the early modern period, with its first focus in Holland and a second (decisive) focus in England. Modern capitalism first became stabilized between the sixteenth and eighteenth centuries. But a decisive leap forward came in the nineteenth century, first in England, with the merging of a capitalist economy with the immense technological power released by the Industrial Revolution. The modern capitalist world system became established by the end of the nineteenth century and consolidated itself in the twentieth century.

6.2 CAPITAL

Strictly speaking capitalism is a term denoting a mode of production in which capital in its various forms is the principal means of production. The term 'capital' (capitale, from the Latin word caput for 'head') first emerged in the twelfth and thirteenth centuries, denoting stocks of merchandise, sums of money, and money carrying interest. Fernand Braudel quotes a sermon of St. Bernardino of Siena (1380- 1444), who refers (in translation from the Latin) to 'that prolific cause of wealth we commonly call capital' (capitale). The term came to denote, more narrowly, the money wealth of a firm or a merchant. In the eighteenth century it gained common usage in this narrower sense, especially referring to productive capital. The noun 'capitalist' probably dates from the mid-seventeenth century, to refer to owners of 'capital'.

In everyday speech now, the word 'capital' is generally used to describe an asset owned by an individual as wealth. Capital might then denote a sum of money to be invested in order to secure a rate of return, or it might denote the investment itself: a financial instrument, or stocks and shares representing titles to means of production, or the physical means of production themselves. Depending on the nature of the capital, the rate of return to which the owner has a legal right is either an interest payment or a claim on profits. Capital is an asset which can generate an income flow for its owner. Two corollaries of this understanding are, first, that it applies to every sort of society, in the past, in the present and in the future, and is specific to none; and second, that it posits the possibility that inanimate objects are productive in the sense of generating an income flow. This is the neo-classical conception of capital. It exemplifies what has become known as fetishism, or the process in which men project upon outside or inanimate objects, upon reified abstractions, these powers which are actually their own. As Paul Sweezy, a critic of such economic theories argued, 'Since profit is calculated as a return on total capital, the idea inevitably arises that capital as such is in some way productive'. So a 'quantity of capital' is postulated and this rather than human labour is attributed with the power of producing wealth. The Marxist concept of capital is based on a denial of these two corollaries. First, capital is something which in its generality is quite specific to capitalism. While capital predates capitalism, in capitalist society the production of capital predominates, and dominates every other sort of production. Capital cannot be understood apart from capitalist relations of production. Indeed, capital is not a thing at all, but a social relation which appears in the form of a thing. Although capital is undoubtedly about making money, the assets which 'make' money embody a particular relation between those who have money and those who do not, such that not only is money 'made', but also the private property relations which engender such a process are themselves continually reproduced.

6.3 CAPITALISM

Capital is accordingly a complex category, not amenable to a simple definition, and the major part of Marx's writings was devoted to exploring its ramifications. Whatever the asset form of capital itself, however, it is the private ownership of capital in the hands of a class – the class of capitalists to the exclusion of the mass of the population – which is a central feature of capitalism as a mode of production. Only Marxists have consistently sought to integrate in a single theoretical construction the economic, social, political and cultural dimensions of the capitalist phenomenon. Neither Max Weber nor Joseph Schumpeter, nor Friedrich von Hayek, all of whom attempted to construct non-Marxist frameworks to understand capitalism, succeeded in supplying a satisfactory framework. Weber's intellectual enterprise was essentially one of comparative history, designed to uncover the roots of the unique Western development of what he called 'modern rationality', which was intrinsic to the capitalist system. Schumpeter remained essentially an economist and his most durable contributions have remained in economics, for example, his theory of the economic role of entrepreneurship. Hayek made some highly astute observations about the relation of capitalism to various other phenomena in modern society, such as democracy and the rule of law, but he never set out to construct a comprehensive theory embracing all these relationships. The term 'capitalism' is more recent than 'capitalist.' Adam Smith, commonly regarded as the classical theorist of capitalism, did not use the term at all; he described what he regarded as the natural system of liberty. It became common only after the publication of Werner Sombart's magnum opus (Der moderne Kapitalismus, Munich, 1928 [1902]) and by then was generally seen as the opposite of socialism. The word 'capitalism' is rarely used by non-Marxist schools of economics. Even in Marxist writings it is a late arrival. Marx, while he uses the adjective 'capitalistic,' does not use capitalism as a noun either in The Communist Manifesto or in Capital vol. 1. Only in 1877, in his correspondence with Russian followers, did he use it in a discussion of the problem of Russia's transition to capitalism. This reluctance to employ the word may have been due to its relative modernity in Marx's day. The Oxford English Dictionary cites its first use (by William Makepeace Thackeray) as late as 1854. Controversies concerning the origins and periodization of capitalism arise from the tendency to emphasise one out of many features which can be said to characterize the capitalist mode of production. Capitalism can be said to be characterized by,

1) Production for sale rather than own use by numerous producers. This contrasts with simple commodity production.

2) A market where labour power too is a commodity and is bought and sold, the mode of exchange being money wages for a period of time (time rate) or for a specified task (piece rate). The existence of a market for labour contrasts with its absence in either slavery or serfdom.

3) The predominant if not universal mediation of exchange by the use of money. This aspect accentuates the importance of banks and other financial intermediary institutions. The actual incidence of barter is limited.

4) The capitalist or his managerial agent controls the production (labour) process. This implies control not only over hiring and firing workers but also over the choice of techniques, the output mix, the work environment, and the arrangements for selling the output.

The contrast here is with the putting-out system or with alternative modern proto-socialist forms such as the co-operative, the worker-managed firm, worker-owned and/or state-owned firms.

5) Control by the capitalist or the manager of financial decisions. The universal use of money and credit facilitates the use of other people's resources to finance accumulation. Under capitalism, this implies the power of the capitalist entrepreneur to incur debts or float shares or mortgage capital assets to raise finance. The contrast here would be with central financial control by a planning authority.

6) There is competition between capitals. The control of individual capitalists over the labour process and over the financial structure is modified by its constant operation in an environment of competition with other capitals either producing the same commodity or a near-substitute, or just fighting for markets or loans. This increasing competition forces the capitalist to adopt new techniques and practices which will cut costs, and to accumulate to make possible the purchase of improved machinery. This competition strengthens the tendency towards concentration of capital in large firms. It is to neutralize competition that monopolies and cartels emerge.

Capitalism is an economic system based on the private ownership of the means of production and their operation for profit. Characteristics central to capitalism include private property, capital accumulation, wage labor, voluntary exchange, a price system and competitive markets. In a capitalist market economy, decision-making and investments are determined by every owner of wealth, property or production ability in financial and capital markets, whereas prices and the distribution of goods and services are mainly determined by competition in goods and services markets.

Economists, political economists, sociologists and historians have adopted different perspectives in their analyses of capitalism and have recognized various forms of it in practice. These include laissez-faire or free-market capitalism, welfare capitalism and state capitalism. Different forms of capitalism feature varying degrees of free markets, public ownership, obstacles to free competition and state-sanctioned social policies. The degree of competition in markets, the role of intervention and regulation, and the scope of state ownership vary across different models of capitalism. The extent to which different markets are free as well as the rules defining private property are matters of politics and policy. Most existing capitalist economies are mixed economies which combine elements of free markets with state intervention and in some cases economic planning.

Market economies have existed under many forms of government and in many different times, places and cultures. Modern capitalist societies—marked by a universalization of money-based social relations, a consistently large and system-wide class of workers who must work for wages, and a capitalist class which owns the means of production—developed in Western Europe in a process that led to the Industrial Revolution. Capitalist systems with varying degrees of direct government intervention have since become dominant in the Western world and continue to spread. Over time, capitalist countries have experienced consistent economic growth and an increase in the standard of living.

Critics of capitalism argue that it establishes power in the hands of a minority capitalist class that exists through the exploitation of the majority working class and their labor; it prioritizes profit over social good, natural resources and the environment; and it is an engine of inequality, corruption and economic instabilities. Supporters argue that it provides better products and innovation through competition, disperses wealth to all productive people, promotes pluralism and decentralization of power, creates strong economic growth and yields productivity and prosperity that greatly benefit society.

6.4 CAPITALIST INDUSTRIALIZATION

Capitalism is the first stage in the history of the world to coincide with the phenomenon of industrialization in its full-blown form. Together, the new economic institutions and the new technology (in Marxist terms, the relations and the means of production) transformed the world. Technical progress is the most essential characteristic of capitalist advance, but it is also one that is most difficult to quantify or explain. This is because its effects are diffused throughout the growth process in a myriad ways. It augments the quality of natural resources and labour power (human capital) and has an impact on trade. Investment is the major vehicle in which it is embodied, and their respective roles are closely interactive. There is no doubt of its importance in capitalist growth, or the contrast between its role in capitalist and pre-capitalist industry. A major driving force of capitalist industrialization is the strong propensity to risk capital on new techniques that hold promise of improved profits, in strong contrast to the defensive wariness of the pre-capitalist approach to technology. Some scholars regard the application of science to industry as the distinguishing characteristic of modern industry. Despite its attractiveness, this view has its difficulties. In the eighteenth century dawn of modern industry the body of scientific knowledge was too slender and weak to be applied directly to industrial processes, whatever the intention of its advocates. In fact, it was not until the second half of the nineteenth century, with the flowering of chemical and electrical sciences, that scientific theories provided the foundations for new processes and new industries. It is indisputable, however, that as early as the seventeenth century the methods of science – in particular, observation and experiment – were being applied (not always successfully) for utilitarian purposes. Nor were such efforts limited to men of scientific training. Indeed one of the most remarkable features of technical advance in the eighteenth and early nineteenth centuries was the large proportion of major inventions made by ingenious tinkerers, self-taught mechanics and engineers (the word engineer acquired its modern meaning in the eighteenth century) and other autodidacts. In many instances the term experimental method may be too formal and exact to describe the process: trialand-error may be more apposite. But a willingness to experiment and to innovate penetrated all strata of society, including even the agricultural population, traditionally the most conservative and suspicious of innovation. The most significant improvements in technology involved the use of machinery and mechanical power to transform tasks that had been done far more slowly and laboriously by human or animal power, or that had not been done at all. To be sure, elementary machines like the wheel, the pulley, and the lever had been used from antiquity, and for centuries humankind had used a fraction of the inanimate powers of nature to propel sailing ships and actuate windmills and waterwheels for rudimentary industrial purposes. During the eighteenth century, a notable increase in the use of waterpower occurred in industries such as grain milling, textiles, and metallurgy. The most important developments in the application of energy in the early stages of industrialization involved the substitution of coal for wood and charcoal as fuel, and the introduction of the steam engine for use in mining, manufacturing and transportation. Similarly, although metallic ores had been converted into metals for centuries, the use of coal and coke in the smelting process greatly reduced the cost of metals and multiplied their uses, whereas the application of chemical science created a host of new, 'artificial' or synthetic materials. Though the term 'industrialization' is absent from the work of Marx and Engels, the concept is clearly present. Marx distinguishes 'Modern Industry' or 'The Factory System' or 'The Machinery System' from earlier forms of capitalist production, cooperation and 'Manufacture'. Modern industry is distinguished from manufacture by the central role of machinery: 'As soon as tools had been converted from being manual implements of man into implements of a mechanical apparatus, of a machine, the motive mechanism also acquired an independent form, entirely emancipated from the restraints of human strength. Thereupon the individual machine sinks into a mere factor in production by machinery'. (Capital, 1, chapter 13, section 1) In parallel with manufacture, Marx distinguishes two stages in the development of the machinery system. In the first stage, 'simple co-operation,' there is only a 'conglomeration in the factory of similar and simultaneously acting machines' using a single power source'. In the second stage, a 'complex system of machinery', the product goes through a connected series of detailed processes carried out by an interlinked chain of machines. When this complex system is perfected and can carry out the entire process of production with workers only as attendants, it becomes an 'automatic system of machinery'. (Ibid, chapter 13, Section

1) The conversion of hand-operated tools into instruments of a machine reduces the worker to a 'mere' source of motive power, and as production expands, the limits of human strength necessitate the substitution of a mechanical motive power for human muscles. In the factory system, all the machines are driven by a single 'motive force', the steam engine. In The Unbound Prometheus, David Landes placed technology at the centre of the Industrial Revolution. He introduces this book by listing three areas of material advance that comprised 'the heart of the Industrial Revolution'. They are

1) The substitution of mechanical devices for human skills;

2) Inanimate power – in particular steam – took the place of human and animal strength;

3) There was a marked improvement in the getting and working of raw materials, especially in what are now known as the metallurgical and chemical industries.

Theodore Hamerow has measured the course of this technological modernization in different European countries by citing the rising number of patents, the capacity of steam engines and their diffusion in production, the concentration of labour in factories and the increase in the efficiency of manufacture by way of rises in output per manhour. Maxine Berg has questioned some of the assumptions of these perspectives by pointing out that they reinforce the old 'technological determinism' of most accounts of the Industrial Revolution. Landes' approach, she argued, traced the history of the most 'progressive' industries without enquiring into the patterns by which they were adapted within different regions in Europe; Landes did not explore why mechanization occurred faster (and earlier in her industrial history) in the

USA than in England; and he had no answer to the question of why French industry found it difficult to adapt to British power and coal-using techniques. Industrialization has come to be used as a synonym for sustained economic growth. It is said to occur in a given country when output and real incomes per head begin to rise steadily and without apparent limit. Expansion of total output alone, however, is not a sufficient criterion of industrialization since, if population is rising more rapidly than output, it is compatible with declining real incomes per head. Nor can mere abundance of capital and land (which might give rise for a time to growing real incomes per head) produce a growth in the economy which can be described as industrialization if material technology remains unchanged. A country which retains a large, even predominant, agricultural sector may be described as industrialised if real incomes rise and technology changes.

Associated with industrialization are a number of economic and social changes which follow directly from its defining characteristics. For example, as real incomes rise, the structure of aggregate demand will change, since the income elasticities of demand for the various goods available differ considerably. Again, and partly for the same reason there will be a major, sustained shift of population from the countryside into the city. Whereas there is room for argument about the length and makeup of any list of the concomitants of industrialization, there is near unanimity upon the central identifying characteristic: the rise in real income per head.

6.5 INDUSTRIAL REVOLUTION

Probably no term from the economic historian's lexicon has been more widely accepted than 'industrial revolution.' This is unfortunate because the term itself has no scientific standing and conveys a grossly misleading impression of the nature of economic change. Nevertheless, for more than a century it has been used to denote that period in British history that witnessed the application of mechanically powered machinery in the textile industries, the introduction of James Watt's steam engine, and the 'triumph' of the factory system of production. By analogy, the term has also been applied to the onset of industrialization in other countries, although without general agreement on dates. The expression revolution industrielle was first used in the 1820s by French writers who, wishing to emphasize the importance of the mechanization of the French cotton industry then taking place in Normandy and the Nord, compared it with the great political revolution of 1789. In 1837, Jerome-Adolphe Blanqui referred to 'la revolution industrielle' in England. Contrary to widespread belief, Karl Marx did not use the term in its conventional sense. It acquired general currency only after the publication in 1884 of Arnold Toynbee's Lectures on the Industrial Revolution in England: Popular Addresses, Notes and Other Fragments. Toynbee dated the British Industrial Revolution from 1760. The dates implicit in Toynbee's Lectures, 1760-1820, were arbitrarily determined by the reign of George III, on which Toynbee had been invited to lecture. This view went unchallenged for about 50 years, until Professor J.U. Nef stressed the essential continuity of history and traced its beginnings to 1540-1660, with the new capitalistic industries of Elizabethan England. Early descriptions of the phenomenon emphasized the 'great inventions' and the dramatic nature of the changes. As an 1896 textbook put it, 'The change...was sudden and violent. The great inventions were all made in a comparatively short space of time...' a description that A.P. Usher dryly characterized as exhibiting 'all the higher forms of historical inaccuracy.' Early interpretations also emphasized what were assumed to be the deleterious consequences of the new mode of production. Although increases in productivity as a result of the use of mechanical power and machinery were acknowledged, most accounts stressed the use of child labour, the displacement of traditional skills by machinery, and the unwholesome conditions of the new factory towns. For most of its history, for most people, the term 'industrial revolution' has had a pejorative connotation.

6.6 THEORIES FOR THE EMERGENCE OF CAPITALISM

The origins of capitalism are traced variously to the growth of merchant capital and external trade or to the spread of monetary transactions within feudalism by the commuting of feudal rent and services into money. This debate concerns the transition from Feudalism to Capitalism and pertains mainly to Western European experience where capitalism first emerged. Whatever the reasons for its origins, the period from about the fifteenth century to the eighteenth century is generally accepted as the merchant capital phase of capitalism. Overseas trade and colonization carried out by the state-chartered monopolies played a pivotal role in this phase of capitalism in Holland, Spain, Portugal, England and France. The industrial phase of capitalism opened with the upsurge in power-using machinery in the Industrial Revolution in England. This section will briefly examine theories for the emergence of capitalism advanced by four major thinkers, namely Adam Smith, Karl Marx, Franklin Mendels and the theory of Proto-Industrialization and Immanuel Wallerstein.

6.6.1 Adam Smith

In the model put forward by Adam Smith (1723-90) in An Enquiry into the Nature and Causes of the Wealth of Nations, Book 1, the development of a society's wealth –equated with the development of the productivity of labour – is a function of the degree of the division of labour. By this Smith simply means the specialization of productive tasks – classically achieved through the separation of agriculture and manufacturing, and their assignment to country and town respectively. The division of labour in industrial production made possible an unprecedented growth in output and productivity. If it was possible to sell this enhanced output over a wide market, then such division would prove profitable, and the profits could be ploughed back into further profitable activity. For Smith, the degree of specialization is bound up with the degree of development of trade: the degree to which a potentially interdependent, specialized labour force can be – and is – linked up via commercial nexuses. Thus we get Smith's famous principle that the division of labour is limited by the extent of the market – literally, the size of the area and population linked up via trade relations. For Adam Smith the development of trade and the division of labor unfailingly brought about economic development. Smith's argument that the separation of manufacture and agriculture and their allocation to town and country, consequently upon the development of trading connections, will lead to a process of economic growth, as a result of the increased productivity which 'naturally' follows from the producers' concentration on a single line of production rather than a multiplicity of different ones, has a certain plausibility. In locating the growth of wealth in the interaction between division of labour and growth of markets, Smith liberated economics from an agrarian bias such as the Physiocrats had imparted to it, or the narrow commercial bias that the Mercantilists had given it. Surplus did not originate in land alone, nor was the acquisition of treasure (precious metals) any longer the sole or desirable measure of economic prosperity. Thus wealth could take the form of (reproducible) vendible commodities. If the wealth holders then spent it productively in further investment wealth would grow. The growth of commerce and the growth of liberty mutually determine each other for Smith. Smith and his fellow 'political economists' traced the advance of capitalism to the onset of conditions that liberated purportedly inherent human qualities and to the beneficent operation, in market transactions, of an 'invisible hand' that brought the common good out of the conflicting self-interest of all individuals. Commerce could be seen as a key to prosperity, but only its unhindered pursuit would secure the maximum prosperity. Commerce, by spreading world-wide and making the accumulation of wealth possible in liquid (that is, transportable) form, renders merchants independent of political tyranny and hence increases the chances of the growth of liberty

6.6.2 Karl Marx

The transition from Feudalism to Capitalism was never a major preoccupation for Marx (1818-83) and Engels. It was nonetheless a problem addressed periodically in discussion of more central themes such as the historical materialist method, the capitalistic mode of production, or class conflict in history. To Marx, capitalism was powerful and dynamic, a superior form of production that promoted economic growth far above anything possible in feudalism. He attributed its appearance not to the release of natural, unchanging human predispositions but to specific economic, political, and legal measures. In Marx's interpretation of the emergence of capitalism two broad perspectives are offered. He first emphasises the corrosive effect upon the feudal system of mercantile activity, the growth of a world market and new expanding cities. Mercantile capitalism, within an autonomous urban sphere, provides the initial dynamic towards capitalism: merchants entered production and employed wage labourers. The second variant, evident especially in Capital, centres on the 'producer' and the process whereby the producer (agricultural or in the crafts sector) becomes merchant and capitalist. Marx regards the latter as 'the really revolutionary path' to capitalism since this transforms the organisation and techniques of production. This is because mercantile activity (the first variant) may well turn products for use into commodities for exchange, but it does not explain how and why labour power should itself become a commodity. Also, although the merchant path separates the worker from ownership of the product, it retains inherited techniques and social organization of production. It is therefore ultimately conservative. Hence it cannot explain the transition to capitalism. The primitive (or original) accumulation of capital is a concept developed in Marx's Capital and Grundrisse to designate that process which generates the preconditions of the ongoing accumulation of capital. In Marx's words, 'primitive accumulation is nothing else than the historical process of divorcing the producer from the means of production'. (Capital, 1: 873-5). Marx's focus is upon how one set of class relations becomes transformed into another. In particular, how it is that a property-less class of wage-labourers, the proletariat, becomes confronted by a class of capitalists who monopolize the means of production. Many of Marx's contemporaries saw capital as the result of abstinence and saving, as the original source for accumulation. Marx's point is that primitive accumulation is not an accumulation in this sense at all. Abstinence can only lead to accumulation if capitalist relations of production, or the polarisation between a class of capitalists and a class of wage-labourers, are already in existence. Marx argued that since pre-capitalist relations of production are predominantly agricultural, the peasantry having possession of the principal means of production, land, capitalism can only be created by dispossessing the peasantry of the land. Accordingly, the origins of capitalism are to be found in the transformation of relations of production on the land. The freeing of the peasantry from land is the source of wage labourers both for agricultural and industrial capitalism. For Marx the first and foremost effect of the 'agricultural revolution' in England was to expropriate the peasant from the soil and establish capitalist agriculture. A new money-oriented nobility and gentry forcibly enclosed demesne, common and waste land, consolidated small farms into larger ones and at times converted to pasturage. Capitalist farmers grew from a differentiation of the peasantry. Enclosures converted property characterized by shared rights into private property. The genesis of capitalist agriculture contrasts sharply with the birth of capitalist industry. While agriculture generated both its own capitalists and workers, the urban crafts played a distinctly secondary role in forming either pole of industry. Rather, the agricultural revolution supplied the labourers and merchants advanced much of the money to employ them and shaped markets in which their products were sold. For Marx, merchants could foster primitive accumulation by usury, crushing artisanal guilds, expanding markets, providing employment or by investing profits. While Marx emphasizes domestic causes of proletarianization, he focuses primarily on international commerce in accounting for the genesis of the industrial capitalist. (Capital, 1, ch. 31) This interpretation stresses the forcefulness, often genocidal, and the unevenness of primitive accumulation. It was through servile labour in the colonies, the slave trade, and commercial wars that the English prospered and replaced the Dutch as the dominant mercantile power by 1700. Government laws, monopolies, taxes and debt assisted the process. Far from the state being a brake on or an enemy of capitalism, Marx held, it was one of its principal progenitors and servants.

6.6.3 The Theory of Proto-Industrialization

The theory of 'proto-industrialization' (henceforth PI) actually started with Franklin Mendels' 1969 dissertation at the University of Wisconsin, 'Industrialization and Population Pressure in Eighteenth-Century Flanders.' This was a study of the relatively rapid population growth experienced in an internal region of Flanders, where a peasant population combined agriculture with part-time linen manufacture. Much of the output was sold on overseas markets by entrepreneurs in Ghent and other market towns to distant markets, especially those of the Spanish Empire. The workers, family units of husband, wife and children, usually cultivated small plots of ground as well, although they also bought additional supplies in markets. The term has subsequently been refined and extended in both space and time to other, similar industries. In some instances – for example, the Lancashire cotton industry – it has been seen as the prelude to a fully developed factory system. In others, however, such as the Irish and even the Flemish linen industries, no such transition occurred. PI had distinctive patterns of development. It generally originated in pastoral regions and declining or large-scale agricultural areas. Scholarship on PI emphasizes interconnections among widening markets, rising populations (especially rural) seeking wage-earning employment, and the search for cheap labour by entrepreneurs. Highlighting rural, household and regional changes, studies of Industrialization before industrialization by Peter Kriedte, Hans Medick and Jurgen Schlumbohm of the Max Planck Institut fur Geschichte in Gottingen in 1981 (but first published in German in 1977) attempted to situate PI within the 'transition from feudalism to capitalism.' PI is credited with creating the key changes in the uses of land, labour, capital and entrepreneurship which made the Industrial Revolution possible in the following ways:

1) The generation of supplementary handicraft incomes will lead to an expansion of population, breaking up the self-regulating or homeostatic equilibrium of pre-industrial populations – by this process, the natural rate of growth of population increases but also becomes adjusted to the augmented means of subsistence that are locally available. Accordingly, handicrafts generated the labour supply of the Industrial Revolution.

2) A region thus experiencing growing population and growing PI will soon begin to encounter diminishing returns as dispersed industry creates difficulties in the collection of output and the control of quality. This will conduce to the concentration of manpower in workshops and then to the

use of labour-saving mechanical inventions. In this manner, PI created pressures leading to the factory system and to new technology.

3) As a result of PI development, capital for these workshops or the introduction of machines will accumulate locally in the hands of merchants, commercial farmers or landowners. In this manner, PI is supposed to have led to the accumulation of capital.

4) PI will lead to the accumulation of technical knowledge by merchants as a result of their experience with inter-regional and international trade. In this way it provides 'a training ground in which the early industrialists were recruited', and a new supply of entrepreneurs.

5) The simultaneous development of PI and a regional commercial agriculture will prepare the agricultural sector for the task of supplying food during the urbanization which accompanies the subsequent phase of industrialization, that is, PI leads to agricultural surpluses and reduces the price of food. PI and the related terms refer primarily to consumer goods industries, especially textiles. Well before the advent of the factory system in the cotton industry, however, other large-scale, highly capitalized industries existed, producing capital or intermediate goods, and sometimes even consumer goods. The French manufactures royales were usually located in large factory-like structures where skilled artisans worked under the supervision of a foreman or entrepreneur, but without mechanical power. Similar 'proto-factories' were built by noble landowner-entrepreneurs in the Austrian Empire (Bohemia and Moravia) and elsewhere. Large landowners also acted as entrepreneurs in the coal industry, mining the deposits located on their estates. Iron-works, usually located in rural areas near timber (for charcoal) and iron ore, sometimes employed hundreds, even thousands of workers. Lead, copper, and glass-works also frequently had large-scale organizations, as did shipyards. The state-owned Arsenal of Venice, dating from the Middle Ages, was one of the earliest large-scale enterprises in history.

6.6.4 Immanuel Wallerstein

Capitalism was from the beginning, Wallerstein argues, a matter of the world-economy and not of nation states. Capitalism has never allowed its aspirations to be determined by national boundaries. For him, 'the only kind of social system is a world system, which we define quite simply as a unit with a single division of labour and multiple cultural systems.' There could be two varieties of such world systems, one with a common political system and one without. These he called, respectively, worldempires and world-economies. The modern world system, which created a European world economy with an unprecedented structure originated in sixteenth century Europe, during what Braudel called the 'long sixteenth century' (1450-1660). The geographical limits of this worldeconomy, determined largely by the state of technology at the time, included NorthWest Europe, which became the 'core' of the system. Dividing the world into two more elements, Wallerstein placed Eastern Europe (but not Russia) and Spanish America at the 'periphery', while the Mediterranean littoral (Spain and the Northern Italian city-states) became a 'semi-periphery'.

How did the European world-economy operate? The core areas had mass market industries, international and local commerce in the hands of an indigenous bourgeoisie, and, relatively advanced and complex forms of agriculture. The peripheral areas were mono-cultural, with the cash crops produced on large estates by coerced labour. The semi-peripheral areas were in the process of de-industrializing, although they still retained some share in international banking and high-cost, quality industrial production. The form of agricultural labour control used there was mostly sharecropping, a form that was intermediate between the freedom of the lease system and the coercion of slavery and serfdom. This world was comprised of a multitude of political entities. In the core states relatively strong state systems emerged with an absolute monarch and a patrimonial state bureaucracy. By contrast, the critical feature of the periphery was the absence of a strong state. The semi-periphery was, once again, in between in its polity. By the end of the sixteenth century the decline of state authority was clear in Spain and in the large city-states of north Italy. The essential feature of a capitalist world economy is production for sale in a market in which the object is to realise the maximum profit. In such a system production is constantly expanded as long as further production is profitable, and men constantly innovate new ways of producing things that will expand the profit margin. Wallerstein identified three stages in the development of the world-economy. The first was one of agricultural capitalism, from the sixteenth to the eighteenth century. In this stage wage labour is only one of the modes in which labour is recruited and paid; slavery, 'coerced cash-crop production' (his term for the so-called 'second feudalism'), share cropping and tenancy are all alternative modes. The second stage commenced with the world-wide recession of 1650-1730. In this stage England first ousted the Netherlands from her commercial primacy and then successfully resisted France's attempt to catch up. It was only in the third stage from the mideighteenth century, that capitalism became primarily industrial (rather than agricultural or mercantile). In this stage industrial production represents a constantly growing share of the world's total production. As importantly too, there is the geographical expansion of the European world-economy to include the entire globe.

Check Your Progress 1

Note : i) Use the space given below for your answers.

ii) Check your answer with the model answers given at the end of the unit.

1. Discuss about Capital.

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2. How do you know the Capitalism?

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3. Discuss the Capitalist Industrialization.

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6.7 DIFFERENT PATHS TO INDUSTRIALIZATION: BRITAIN, FRANCE AND GERMANY

There have been and are many paths to industrialization between countries. One would expect this from their historical and geographical diversity, with associated differences in the gestation period involved. It is these variations that militate against a non-country specific theory of capitalist industrialization. Britain's transition to capitalist industrialization was not at all typical of the European experience. Thus Patrick O'Brien and Caglar Keyder, suggest that the British experience is 'initial' rather than 'normal practice', especially with regard to the relative size and productivity of agriculture, They state that 'Economic theory lends no support to assumptions….that there is one definable and optimal path to higher per capita incomes and still less to the implicit notion that this path can be identified with British industrialization as it proceeded from 1780 to 1914'.

Instead of being presented as the paradigmatic case, the first and most famous instance of economic growth, the British Industrial Revolution is now depicted in a more negative light, as a limited, restricted, piecemeal phenomenon, in which various things did not happen or where, if they did, they had far less effect than as previously supposed. Instead of stressing how much had happened by 1851 (whatever the qualifications), it is now commonplace to note how little had actually altered (whatever the qualifications). Recent research has stressed the gradualness of change when seen from a macroeconomic standpoint and has also been tending to argue that the 'industrial revolution' was not merely economic, but social, intellectual and political too. The change in emphasis in historiography has been from national aggregates and sectoral analysis to regional variations and uneven development, from the few large and successful businessmen to the many small and inept entrepreneurs. Social history has shifted away from analyses of new class formations and consciousness, as characterized by E. P. Thompson and emphasized by J. Foster to identifying continuity between social protest and radicalism between the eighteenth and nineteenth centuries. Then, an influential tendency in the socio-cultural historiography of the 1980s has argued that the British Industrial Revolution was very incomplete (if it existed at all) because the industrial bourgeoisie failed to gain political and economic ascendancy. Economic and political power remained in the hands of the landed aristocracy: 'Gentlemanly capitalism' prevailed. The major division in the social and political life of nineteenth century Britain is argued to have been that between the dominant gentlemanly capitalism of the aristocratic and rentier classes, and a subordinate industrial capitalism. The historiography of the British Industrial Revolution has moved away from viewing the late eighteenth and early nineteenth centuries (particularly 1780-1815) as a unique turning point in economic and social development. For example, A.E. Musson's survey, The Growth of British Industry criticizes what he regards as 'the general interpretation presented in most textbooks', namely that 'the industrial revolution had taken place by 1850, that the factory system had triumphed.' He stresses the extent to which consumer goods industries remained handicraft industries, located in small workshops; the degree to which, as shown in the 1851 Census, patterns of employment and occupational structure remained dominated by traditional craftsmen, labourers and domestic servants; and the very slow rate at which factories spread and steam power was diffused. He argues that 'There are good grounds for regarding the period 1850-1914 as that in which the Industrial Revolution really occurred, on a massive scale, transforming the whole economy and society much more deeply than the earlier changes had done.' Some historians challenge the broad view of the Industrial Revolution expressed in T.S. Ashton's memorable phrase, 'A wave of gadgets swept over England.' Ashton's view was widespread during the 1950s and 1960s. His critics see the Industrial Revolution as a much narrower phenomenon, as the result of technical change in a few industries, most notably cotton and iron. Crafts wondered whether it was possible that there was virtually no industrial advance during 1760-1850. Since the 1980s, studies of the Industrial Revolution have borne out its gradual pace of change. New statistics have been produced which illustrate the slow growth of industrial output and gross domestic product. Productivity grew slowly; fixed capital proportions, savings and investment patterns altered only gradually; workers' living standards and their personal consumption remained largely unaffected before 1830 and were certainly not squeezed.

Research by Williamson, Knick Harley and Feinstein has revealed the fact that Britain passed through a turning point around the 1820s. Growth in National Income was much lower before than after that date. There was a doubling in the growth rate of industrial production too. Feinstein's estimates of the rate of capital formation shows that it drifts upwards from then, as does the rate of capital accumulation and the growth rate of capital invested per worker employed in industry. The turning point was dramatic in the standard of living. The adult, male, working class real wage failed to increase between 1755 and 1819, but from 1819 to 1851, it rose at an annual rate of 1.85%, according to estimates in 1983 by Lindert and Williamson. Among the early industrializers, France remains the most aberrant case. That fact gave rise to a large literature devoted to explanations of the supposed 'backwardness' or 'retardation' of the French economy. The dominant tendency in the AngloAmerican literature on modern French economic growth was to treat it in this context. Indeed, in what might be regarded as the founding account of that development, Sir John Clapham went so far as to muse that 'it might be said that France never went through an industrial revolution.' What has impressed economic historians as they have looked at nineteenth century France is the failure of some dramatic breakthrough to appear, the absence of a marked acceleration in growth. Recent new empirical research and theoretical insights have shown that the earlier debates were based on a false premise. In fact, although the pattern of industrialization differed from that of Britain and the early industrializers, the outcome was not less efficient and, in terms of social welfare, may have been more humane. Moreover, when one looks at the patterns of growth of successful late industrializers, it appears that the French pattern may have been more 'typical' than the British. Two factors in the French situation account in large measure for its unjustified reputation for 'retardation', namely, the dramatic fall in marital fertility, which reduced the growth rate of the population to less than half that of other major nations; and, the scarcity and high cost of coal, which resulted in a lower output of the heavy industries (iron and steel, in particular) than in other large nations, such as Britain and Germany. Moreover, these two factors in combination help to account for several other features of the French pattern of industrialization, such as the low rate of urbanization, the scale and structure of enterprise, and the sources of industrial energy. The well-known characteristic of French industrialization was a relatively slow expansion of large-scale capital-intensive forms of production. Investment in the advanced sector proceeded at a leisurely pace, there being no clear acceleration until the 1850s or 1860s and there was a correspondingly limited increase in new employment outlets. In 1851, at the first industrial census, what the French call la grande industrie occupied 1.3 million workers, or less than 25% of the industrial labour force. More in evidence were the 'proto-industrial' forms. The persistence of domestic workshops and hand tool methods until at least mid-century, if not beyond, was common to a whole variety of industries, with urban artisans tending to work full-time on the higher quality goods, leaving the less skilled tasks to the peasantworker. Even in the more mechanized industries, large numbers of mines, iron works, spinning mills and weaving sheds were small by British or German standards, located in isolated rural areas and dependent on labour which continued to work part-time in agriculture. Unlike Britain or France, capitalist industrialization in Germany had to wait the formation of a well-defined area, a unified Germany, before it could commence. Before the mid-nineteenth century political fragmentation, whether within the Holy Roman Empire or the German Federation, was reinforced by the economic conditions of numerous customs barriers, poor communications network, primitive roads and the reduction of economic activity to isolated islands that were separately linked to regional markets. As Sheehan has pointed out, there was nothing particularly German about these economies. R.C. Trebilcock has argued that the German pattern of development was very different from that of the British 'prototype'. Britain had faced an industrialization of

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low cost, a technology of low capital intensity, and had acquired both by recourse mainly to the savings – personal, familial, or local – amassed by entrepreneurs and their thrifty reinvestment of profits. Bank participation was usually employed, at most, in the provision of short-term working capital and rarely in connection with long-term capital formation or share ownership. Banks were, in contrast, more important for German industrialization. Indeed Germany was the principal case of 'moderate backwardness' for some scholars, that case in which banks supply crucial financial and entrepreneurial inputs. Unlike Trebilcock, others have found close affinities in the British and German paths of industrialization. Both were concentrated within a relatively brief and clearly marked period of years. Both were based on the classical sectors of coal, iron, engineering, and, to a lesser extent in the German case, textiles. The development of the railways triggered a greater range of 'backward' and 'forward' linkages in Germany (on the metallurgical and mining industries, the employment structures and the rate of capital formation) than the industry had done in England, at about the same periods of the nineteenth century. German industrialization was also distinctive on account of the role performed by cartels. Cartels were groups of firm that combined to control prices and markets. They either lined firms making the same range of products or those that engaged in different stages of the production of the same products. They began to emerge from the late 1870s, and in close collaboration with the biggest banks, gave German industry a degree of concentration in the spheres of capital and labour that was unmatched anywhere else except in Imperial Russia. They promoted rapid technical progress, a high rate of capital formation and an unrivalled supremacy in the export of manufactured products.

Check Your Progress 2

Note : i) Use the space given below for your answers.

ii) Check your answer with the model answers given at the end of the unit.

4. How do you know about the Industrial Revolution?

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5. Discuss the Theories for the Emergence of Capitalism

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6. Highlight Different Paths to Industrialization: Britain, France and Germany.

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6.8 AGRICULTURE AND INDUSTRIALIZATION: BRITAIN, FRANCE AND GERMANY

The contribution of the agricultural sector to British, French and German industrialization has varied in its chronology and content. Agriculture's contribution in this respect has been broadly assessed on four counts, namely whether it created a food surplus for the non-rural population; whether it helped to widen home and foreign markets; whether it generated capital for industrial investment; and, whether it supplied a labour force for industrial employment. The features of the so-called 'agricultural revolution' in northern Europe tended to be similar: they included the introduction of new crops like artificial grasses or roots, which preserved the soil's fertility and so abolished the earlier necessity for fallow periods. The earlier three-field system, where each field followed a cycle of wheat or rye, barley or oats, was replaced by a cycle which both eliminated leaving some area fallow and included the cultivation of forage crops. More forage meant that a larger number of livestock could be maintained, which, in turn, produced more organic manure and ensured a higher yield for the crops. English agriculture became the most productive in Europe during the seventeenth and eighteenth centuries, well before the advent of industrialization. Landlords, who already by 1700 controlled three-quarters of England's farm land, contributed to rising output and yields by enclosing land and providing capital. But it is now increasingly recognized that it was not them but tenants and owner-occupiers who were in the forefront of the new land use patterns and technologies. Before about 1960, the standard view on British agricultural change assigned it to the late eighteenth and early nineteenth centuries, during the period of parliamentary enclosures, which were seen as its cause. A few works suggest that that the fastest growth in agricultural output occurred before 1760 and this growth was surpassed (or probably doubled) in 1800-30, as agriculture became more capital-intensive. The ability of British agriculture to sustain industrialization on an expanded food basis has, however, been questioned. Addressing the phenomenon of 'A British food puzzle' in 1995, Huberman and Lindert pointed out that even as per capita income was growing from 1770 to 1850, food supplies per capita stagnated or even declined. This is the food puzzle. To match the demand from rising real incomes, domestic agriculture should have grown, they suggest, by 172%-228% in 1770- 1850. But there was actually little gain in productivity in this period. This implies a decline in living standards since food consumption fell during the period of the British Industrial revolution despite apparently rising real incomes. French agriculture increased markedly from 1815 to the early 1870s, the period during which rapid, sustained growth was seen to have occurred in both total and per capita agricultural production in all regions of France. It grew steadily and rapidly enough to feed a growing population, a decreasing proportion of which was engaged in agriculture, and to meet the demand for industrial raw materials (barring raw cotton, which was hardly surprising or unique to the case of France). Productivity per unit of capital employed in agriculture increased steadily throughout the nineteenth century. Annie Moulin has elaborately argued a case for the consequences of the French Revolution having lain not in the creation of a capitalist economy but rather in the consolidation for a century and a half (up to about 1950) of a system of small-scale peasant agriculture based on subsistence and the intensive use of family labour. Over the nineteenth century (1815/24 to 1905/13), productivity per worker employed in French agriculture grew by 0.25% annually, against 1% in

Britain. The main reason was apparently that the French economy retained a far higher share of its labour supply in the countryside rather than relocating it to industry. There was a pressure of population on the land and the cultivation of soils of declining fertility. Yields per hectare cultivated in France were around 75% of the British level for most of the nineteenth century. It has been argued that rural France provided little impetus as a market for industrial goods. Overall, French cultivators saved to buy land rather than manufactured goods. There was, indeed, an enduring autarky in rural France. Until about 1870, notes Eugene Weber, 'many peasants bought only iron and salt, paid for all else in kind and were paid the same way, husbanded their money for taxes or hoarded it to acquire more land.' Through most of the nineteenth century, the internal terms of trade moved in favour of agriculture. The French countryside provided relatively few workers for industry; this reflects the fact that a majority of Frenchmen preferred to remain on farms. David Landes cites an estimate that as much as 55% of the labour force was in agriculture in 1789 and this was still true in 1886; by 1950, the proportion had fallen to one-third. Historians like Dunham and Kindleberger have, however, come to the conclusion that French industry had an adequate supply of labour in the nineteenth century.

The transformation of German agriculture had to await the emancipation of the peasantry. This process started with the legal reforms of 1807-21 and was largely accomplished by 1830 in the western provinces and by 1840 in the eastern provinces. The legislation effected the abolition of seigneurial duties concerning the legal protection of peasants, the removal of burdensome feudal obligations and improved efficiency of production by the use of wage labour. Agricultural production increased more than three-fold during the nineteenth century, while population increased by a factor of 2.3. The share of agricultural employment fell with industrialization. Germany was almost completely self-sufficient in foodstuffs till about 1850 and German farmers produced a surplus of grain, wool and timber for export. After that, Germany was increasingly unable to feed herself: Germany became a net importer of wheat, oats and barley. But agricultural productivity went on rising, although not as rapidly as in industry and the craft trades.

6.9 THE CAPITALIST ENTREPRENEUR

The pre-capitalist social system, that of the ancien regime, was one of 'estates.' An estate was a stratum in which all the three major benefits—privilege, power, and prestige—were largely determined at birth and, also, were fixed as legal inequalities. The aristocracy constituted the dominant estate, stratified within itself. The Church constituted a separate stratum, but not determined by birth. But even in the 'Third Estate', the stratum of urban tradesmen and artisans, the guild system carefully regulated the distribution of benefits. The modern bourgeoisie grew out of the Third Estate, as, for instance, the developments preceding the French Revolution make very clear. It is very significant that one of the first demands of this new class was legal equality of all – or at least of those above a certain minimal level of wealth. In other words, the relation of an individual to the order of privilege should no longer be determined by birth or by royal favour but rather by his role and success in the production process. Max Weber placed the contrast between estates and classes at the core of his theory of social stratification and Marx made this a key criterion in his analysis of what constituted a class. When Marx used the concept of class in political analysis, he held that a class must have a certain degree of cohesion and sense of common purpose, as well as a common relationship to the means of production. Feudal estates were too internally stratified to possess this attribute. One very significant change with capitalist industrialization has been the enormous expansion of the middle strata. Capitalist accountancy called for a secular bureaucracy, an army of agents and clerks to keep accounts, to attend to correspondence, to furnish the news necessary in order to take advantage, if possible before anyone else, of changed market conditions. So perhaps the first visible entry of capitalism into the medieval town was made by the grammar school, where the elements of reading, writing, and arithmetic were the main objects of study. The control of paper became the mark of the new commercial bureaucracy. The institution that marked the turning point in the development of the commercial town was the Bourse, or exchange, which began to serve as a centre for large-scale, impersonal commercial transactions in the thirteenth century. The basic cause of this development was undoubtedly technological. An ever-smaller portion of the labour force was required for the actual tasks of material production, allowing the diversion of ever larger numbers of workers into administrative activities. There was also a vast expansion of the state bureaucracies. The rise of the capitalist firm as a new and immensely important form of economic organization has also encouraged the growth of a bureaucracy. It has meant a separation between the legal ownership of property and the function of economic control of the assets it entails. It has been suggested that effective control over economic resources rather than legal ownership of them is the defining criterion for the top capitalist class. Thus Nicos Poulantzas, in Classes in Contemporary Capitalism begins by defining the bourgeoisie not in terms of a legal category of property ownership but in terms of 'economic ownership' (that is, real economic control of the means of production and of the products) and 'possession' (that is, the capacity to put the means of production into operation). By this criterion, the managers belong to the capitalist bourgeoisie proper. In The Protestant Ethic and the Spirit of Capitalism, Max Weber makes it clear that a capitalist enterprise and the pursuit of gain are not at all the same thing. People have always wanted to be rich, but that has little to do with capitalism, which he identifies as 'a regular orientation to the achievement of profit through (nominally peaceful) economic exchange'. Pointing out that there were mercantile operations – very successful and of considerable size – in Babylon, Egypt, India, China, and medieval Europe, he says that it is only in Europe, since the Reformation, that capitalist activity has become associated with the rational organisation of formally free labour. It called for a new type of economic agent, the capitalist entrepreneur. One of Weber's insights that has remained widely accepted is that the capitalist entrepreneur is a very distinctive type of human being. Weber was fascinated by what he thought to begin with was a puzzling paradox. In many cases, men—and a few women—evinced a drive toward the accumulation of wealth but at the same time showed a 'ferocious asceticism,' a singular absence of interest in the worldly pleasures that such wealth could buy. Many entrepreneurs actually pursued a lifestyle that was 'decidedly frugal'. Was this not odd? Weber thought he had found an answer in what he called the 'this-worldly asceticism' of Puritanism, a notion that he expanded by reference to the concept of 'the calling'. This idea dates from the Reformation, and behind it lies the idea that the highest form of moral obligation of the individual, the best way to fulfil his duty to God, is to help his fellow men, now, in this world. Weber backed these assertions by pointing out that the accumulation of wealth, in the early stages of Capitalism, and in Calvinist countries in particular, was morally sanctioned only if it was combined with 'a sober, industrious career'. For Weber, capitalism was originally sparked by religious fervour. Without that fervour the organization of labour that made capitalism so different from what had gone before would not have been possible. Weber was familiar with the religions and economic practices of non-European areas of the world, such as India, China or the Middle East, and this imbued The Protestant Ethic with an authority it might otherwise not have had. He argued that in China, for example, widespread kinship units provided the predominant forms of economic co-operation, naturally limiting the influence both of the guilds and of individual entrepreneurs. In India, Hinduism was associated with great wealth in history, but its tenets about the afterlife prevented the same sort of energy that built up under Protestantism, and capitalism proper never developed. Europe also had the advantage of inheriting the tradition of Roman Law, which provided a more integrated juridical practice than elsewhere, easing the transfer of ideas and facilitating the understanding of contracts. For Max Weber, 'rational restlessness' was the psychological make-up of Europe, the opposite of what he found in the main religions of Asia: rational acceptance of social order by Confucianism and its irrational antithesis in Taoism; mystical acceptance of social order by Hinduism; the worldly retreat in Buddhism. Weber located rational restlessness especially in Puritanism.

Such persons are 'enterprising' because they are liberated from strong communal ties, which enable them to seek new opportunities without the constraints of collective traditions, customs and taboos. This clearly involves a certain 'ego ideal', a strong discipline, traits that Weber called 'inner-worldly asceticism.' This type of individual is concerned with the affairs of this world, is pragmatic and geared to action, as against the more contemplative or sensitive values. He is also self-denying, prepared for 'delayed gratification', as against someone who immediately spends all he makes. Weber pointed out that it is this 'asceticism', rather than acquisitiveness, that distinguishes the capitalist entrepreneur. Joseph Schumpeter stressed the central role of the capitalist entrepreneur, rather than the stock of capital, as the incarnation of technical progress. In Capitalism, Socialism and Democracy (1943), he sought to change thinking about economics no less than John Maynard Keynes had done. Schumpeter was firmly opposed to both Marx and Keynes. His main thesis was that the capitalist system is essentially static: for employers and employees as well as for customers, the system settles down with no profit in it, and there is no wealth for investment. Workers receive just enough for their labour, based on the cost of producing and selling goods. Profit, by implication, can only come from innovation, which for a limited time cuts the cost of production (until competitors catch up) and allows a surplus to be used for further investment. Two things followed from this. First, capitalists themselves are not the motivating force of capitalism, but instead entrepreneurs who invent new techniques or machinery by means of which goods are produced more cheaply. Schumpeter did not think that entrepreneurship could be taught, or inherited. It was, he believed, an essentially 'bourgeois' activity. What he meant by this was that, in any urban environment, people would have ideas for innovation, but who had those ideas, when and where they had them, and what they did with them was unpredictable. Bourgeois people acted not out of any theory or philosophy but for pragmatic self-interest. This flatly contradicted Marx's analysis. The second element of Schumpeter's outlook was that profit, as generated by entrepreneurs, was temporary. Whatever innovation was introduced would be followed up by others in that sector of industry or commerce, and a new stability would eventually be achieved. This meant that for Schumpeter capitalism was inevitably characterized by cycles of boom and stagnation.

6.10 BOURGEOIS CULTURE

From the viewpoint of the aristocracy, the bourgeoisie appeared above all as 'vulgar.' What did this mean? It meant, essentially, that these people insisted that economic success should count as much as noble birth, family virtue, personal honour, and proximity to the throne. The word 'vulgar' derives from the Latin vulgus, denoting common, ordinary people, as against the patricians. This 'vulgarity' was morally shocking as much as it was politically threatening. Bourgeois culture, at least from the seventeenth century and into its triumphal nineteenth century, developed in sharp and conscious distinction from the culture of the aristocracy, the earlier ruling class against which the bourgeoisie had to establish its ascendancy. The ideal of the bourgeois gentleman was deliberately counterposed to the older, aristocratic, ideal of the gentleman. The bourgeois extolled 'rationality' against the aristocrat's reliance on 'healthy instinct' and spontaneity. The bourgeois knew that his life-style was a matter of self-cultivation; the aristocrat always believed (falsely) that his was the result of genetic inheritance or, as he would say, of 'breeding.' The bourgeoisie was, virtually from the beginning, a literate class; the aristocracy contained many individuals who were proudly illiterate. The bourgeoisie believed in the virtue of work, as against the aristocratic idealisation of genteel leisure. The deliberate display of wealth was an aristocratic rather than a bourgeois trait. Bourgeois culture, most importantly for industrialization, was individuating at the core of its world-view. This prompted R.H. Tawney in 1921 to argue that capitalism had created The Acquisitive Society. He thought that capitalism misjudged human nature, elevating production and the making of profit, which ought to be a means to certain ends, into ends in themselves. This had the effect, he argued, of encouraging the wrong instincts in people, by which he meant acquisitiveness. A very religious man (and a socialist intellectual), Tawney felt that acquisitiveness went against the grain – in particular, it sabotaged 'the instinct for service and solidarity' that is the basis for traditional civil society. He thought that in the long run capitalism was incompatible with culture. Under capitalism, he wrote, culture became more private, less was shared, and this trend went against the common life of men – individuality inevitably promoted inequality. The very concept of culture therefore changed, becoming less and less an inner state of mind and more a function of one's possessions. He also contended that capitalism was incompatible with democracy because the inequalities endemic in capitalism, made more visible than ever by the acquisitive accumulation of consumer goods, would ultimately threaten social cohesion.

Check Your Progress 3

Note : i) Use the space given below for your answers.

ii) Check your answer with the model answers given at the end of the unit.

1. How do you know the Agriculture and Industrialization: Britain, France and Germany?

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2. How do you know about The Capitalist Entrepreneur?

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3. Discuss the Bourgeois Culture.

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6.11 LET US SUM UP

In this Unit you have seen the myriad ways in which capitalist industrialization took place in Europe. You have also seen the ways in which scholars have tried to understand this phenomenon which even today remains central to our lives. Terms like bourgeoisie, capitalist entrepreneur, and bourgeois culture have become parts of our everyday vocabulary and despite a comprehensive criticism of this phenomenon which presumably led to large-scale underdevelopment in large parts of the globe, especially by Marxist thinkers, it retains its hold over our existence. There have been attempts to provide alternative frameworks of shaping human lives, economic structures etc., one of them being the socialist industrialization (about which you would read in the next Unit), and yet it still is very much present before us, albeit in more complex forms.

6.12 KEY WORDS

Capital: In economics, capital consists of assets that can enhance one's power to perform economically useful work. For example, in a fundamental sense a stone or an arrow is capital for a hunter-gatherer who can use it as a hunting instrument, while roads are capital for inhabitants of a city.

Capitalism: Capitalism is an economic system based on the private ownership of the means of production and their operation for profit. Characteristics central to capitalism include private property, capital accumulation, wage labor, voluntary exchange, a price system and competitive markets.

Bourgeois: Bourgeoisie is a polysemous French term that can mean: a sociologically-defined social class, especially in contemporary times, referring to people with a certain cultural and financial capital belonging.

6.13 QUESTIONS FOR REVIEW

1) Define Capital and Capitalism.
2) Discuss the role of technology in the process of capitalist industrialization.
3) Who is a capitalist entrepreneur? Discuss in the light of the debates around the term.
4) How different was bourgeois culture from the aristocratic culture?
5) Discuss about Capital
6) How do you know the Capitalism?
7) Discuss the Capitalist Industrialization
8) How do you know about the Industrial Revolution?
9) Discuss the Theories for the Emergence of Capitalism
10) Highlight Different Paths to Industrialization: Britain, France and Germany
11) How do you know the Agriculture and Industrialization: Britain, France and Germany?

12) How do you know about The Capitalist Entrepreneur?

13) Discuss the Bourgeois Culture.

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6.15 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress 1

1. See Section 6.2
2. See Section 6.3
3. See Section 6.4

Check Your Progress 2

1. See Section 6.5
2. See Section 6.6
3. See Section 6.7

Check Your Progress 3

1. See Section 6.8
2. See Section 6.9
3. See Section 6.10

UNIT 7: DEBATES ON TRANSITION FROM FEUDALISM TO CAPITALISM (DOBB, SWEEZY AND BRENNAR)

STRUCTURE

7.0 OBJECTIVES

After this unit 7, we can able to know:

- To know the Transition Debate
- To discuss the Dobb-Sweezy debate on transition from feudalism to capitalism
- To know the Criticism

7.1 INTRODUCTION

India, an ancient civilisation and a richly endowed sub-continental country, is home to about one-sixth of humanity. An overwhelmingly large part of its people live a life of extreme poverty, though there is a tiny minority which enjoys a standard of living at par with the highest in the world. This is not the only sense in which India can be seen to be a country of extreme contrasts. A country full of diversity and plurality, its encounter with what is generally termed modernity occurred under the aegis of its colonial domination, based on political subjugation at the hands of Great Britain, the pioneer of modern industrialisation which dominated the processes of modernisation-industrialisation for a long period of world history. Though India successfully liberated itself from the colonial rule by means of a mass, popular struggle for independence, it is still striving to be able to win for its more than a billion strong population a standard of living, dignity and empowerment commensurate with its resource endowment, rich heritage, democratic polity wedded to the highest values humanity has been able to articulate to this day and rich human element. It is this arduous struggle for achieving for her citizens what is their long denied due which constitutes the basic challenge for the political economy of development. Given the history of how India came to lag behind and lost valuable historical opportunities in an increasingly inter-twined world and its internal processes became dysfunctional and even counter-productive over time, the political economy of development of India has to be viewed and analysed in the context of the global forces, processes and situation. The primacy of the internal dynamics of the Indian situation has to be constantly kept in view.

The debate on the transition from feudalism to capitalism, originally published in Science and Society in the early 1950s, is one of the most famous episodes in the development of Marxist historiography since the war. It ranged such distinguished contributors as Maurice Dobb, Paul Sweezy, Kohachiro Takahshi and Christopher Hill against each other in a common, critical discussion. Verso has now published the complete texts of the original debate, to which subsequent discussion has returned again and again, together with significant new materials produced by historians since then. These include articles on the same themes by such French and Italian historians as Georges Lefebvre and Giuliano Procacci.

What was the role of trade in the Dark Ages? How did feudal rents evolve during the Middle Ages? Where should the economic origins of mediaeval towns be sought? Why did serfdom eventually disappear in Western Europe? What was the exact relationship between city and countryside in the transition from feudalism to capitalism? How should the importance of overseas expansion be assessed for the 'primitive accumulation of capital' in Europe? When should the first bourgeois revolutions be dated, and which social classes participated in them? All these, and many other vital questions for every student of mediaeval and modern history, are widely and freely explored.

Finally, for this Verso edition, Rodney Hilton, author of Bond Men Made Free, has written a special introductory essay, reconsidering and summarising relevant scholarship in the two decades since the publication of the original discussion. The result is a book that will be essential for history courses, and fascinating for the general reader.

7.2 TRANSITION DEBATE

Transition Debate

One of the liveliest academic debates in recent times relate to the question of what led to the decline of Feudalism and rise of Capitalism. It is commonly identified as the 'Transition Debate'. It has been one of the most controversial debates with regard to its understanding and interpretation. This debate is the outcome of divergent explanations offered on the nature of feudal relationships and the moving forces responsible for its decline and the connection, this decline had with the birth of capitalism. The controversy began on this issue not only between the Marxists and non-Marxist scholars but also within the Marxists scholars. To understand this debate we need to know few things. For example- What is feudalism, Capitalism, System of Production and Mode of Production?

- Feudalism: It is defined as a socio-economic system whose basic characteristic is the exploitation of peasant labor by lords.
- Capitalism: A socio-economic system based on private ownership of the means of production and the exploitation of labour force.
- Mode of Production: Everything that goes into the production of the necessities of life, including the productive forces (labor, instruments, raw material etc.) and the relation of production (the social structures that regulate the relation between humans in the production of good) .
- System of Production: The methods, procedure or arrangement which includes all function required to accumulate the inputs (which

comes in mode of production) to deliver the output (here in terms of production) in the market.

This unending debate began with the publication of Maurice Dobb's stimulating work- 'Studies in the Development of Capitalism' (1946). It was vehemently challenged by Paul Sweezy, who also gained the support of Immanuel Wallerstein. This debate expanded among wider range of historians who supported either Dobb or Sweezy. A non-Marxist explanation emphasizes the role of Demographic Factors in the decline of Feudalism. This view was led by scholars' like- H.J. Habakkuk, M.M. Postan and Emmanuel Le Roy Ladurie.

Dobb's views are strongly supported and elaborated by scholars such as- Rodney Hilton, Boris Porchnev, Christopher Hill, Kohachiro Takahashi, Perry Anderson and many others.

The debate took another phase with the publication of Robert Brenner's article- 'Agrarian Class Structure and Economic Development in Pre-Industrial Europe' (1976).

Henri Pirenne has given a background to this debate. According to him, the classical understanding of the decline of Feudalism and consequent rise of Capitalism was in term of so called 'Commercialization Model'. It was drawn from works like- 'Muhammad and Charlemagne' and 'The Economic and Social History of Medieval Europe'. The primary tenant of this model was the socio-economic formations in Europe in the Feudal period were primarily determined by the decline and revival of Trade in the Mediterranean region. According to this model, the waning of Islamic power in 11th- 13th century in this region led to the revival of European Trade, which had widespread effect on the European Feudal System. It led to the growth of new trade-communication, rise of town, percolation of money etc. Capitalism was thus coming home of the Europeans. There have been many refinements of the basic 'Commercialization Model' by scholars like Marx Webber. He recognized that a fully developed Capitalism emerged only in very specific historical conditions. But he still emphasizes on the uniqueness of the west to explain the development of Capitalism.

The Commercialization Model did not make an acknowledgment of imperatives specific to capitalism, such as the laws of competition, profit maximization and capital accumulation, and the specific social property relations that determine them.

This model has been criticized by many and now it is out of favor. However, according to Ellen Meiksins Wood, it is not entirely absent from demographic explanations.

In 1946, Maurice Dobb published his work- ‘Study in the Development of Capitalism’. His work challenged the ‘Commercialization Model’. In his work, he tried to highlight issue related to the factors responsible for the Transition from Feudal society to Capitalist society. He provides the first major explanation for the decline of Feudalism. Dobb asserts that the feudal economy can’t simply be described as natural economy. According to him, trade never disappeared from feudal society and in fact could be a significant part of this. Hence the development of trade does it for the desolation of feudalism. Dobb representing the classical Marxists approach assigns the decisive role to internal relations of Feudalism. He feels that the need of additional revenue promoted and increased the pressure on the producer to a point where this pressure became Unbearable. According to Dobb and many other scholars like Rodney Hilton, Takahashi and Eric Hobsbawm, it is internal relationship of feudal mode production that determines the system’s disintegration. The absence of technology, low productivity, of the manorial economy, the attempts by lords to augment taxes, an increased need of revenue for wars, brigandage and crusades, and the extravagances of the nobles, combined to act as a drain on feudal revenue and pushed Feudalism towards crisis. Moreover, Dobb says, desolation of Feudalism was very slow and uneven all over Europe, due to various factors. One of the factors was the access of the peasantry to alternative places with fewer feudal restrictions. Another important factor was the relative political power of the land owing class & serfs. This differed in various parts of Europe. In Western Europe, peasant had managed to accumulate small freedom and rights for themselves over the centuries and gradually the balance of power tilted towards the peasantry to such an extent that when 14th century feudal crisis occurred, the peasantry was able to use it at their advantage. Thus; in the 11th century continuous depredation of land of western tribes ended. This led to an agrarian revival and extension of agriculture leading to expanding population. By the end of 13th century and the beginning of 14th century, Land-Man ratio reached proportions where population way out stripped production. The ensuing massive scarcity of labor underlay the 14th century feudal crisis.

After the feudal crisis, feudal relations crumbled and the feudal mode of production reached an advance stage of disintegration. But this didn't immediately lead to smooth capitalist relation. There was a period of transition, characterized by production that was neither feudal nor yet capitalist. Independent from Feudalism, this mode of production was characterized as 'Petty Mode of Production'. According to Dobb, once the Petty Mode had free itself from feudal control, the process of social differentiation within Petty Mode started, leading to the accumulation of capital.

The transition to Capitalism was a long drawn process which took in different phases. Eric Hobsbawm supports and elaborates the arguments of Dobb. He points out that transition from feudal to capitalist mode of production was uneven and not straightforward process. Rodney Hilton says, the crisis of feudalism also involves the most advanced section of the 'Bourgeois' development within the feudal system. For Hobsbawm, the definite triumph of capitalism is reflected through the Industrial, American and the French revolution.

Rodney Hilton lends full support to the 'Property Relations' perspective of Dobb. He agrees that the growth and decay of Feudalism was the result of the factors operating within it and he considers feudal rent to be Prime Mover. Hilton suggests that the fundamental law of feudal society was the tendency of the exploiting class to realize the maximum rent from the labor of direct producers. This conflicted with the necessities of social growth resulted in a contradiction within the exploiting class itself. The member of this class began to compete with each other to establish their domination. This strives for power lead to increase the feudal rent to maintain their position.

Thus, it was struggle for power and land-control that ignited the crisis in which feudal rent became Prime Mover.

Paul Sweezy and Immanuel Wallerstein bring out the role of Market and exchange economy in the decline of Feudalism and rise of Capitalism. Sweezy provide an alternative antithetical view. He adopts a Market-Centric approach called the 'Commercial Model'. Sweezy objects Dobb's identification of Feudalism with serfdom as interchangeable terms. The main characteristic of Feudal mode according to Sweezy was actually a 'System of Production' for use that is the amount to be produced is known and limited. Sweezy looked at the economy of Lord's manor- one using serf/labor, producing for the Lord, his retinue and dependent population that is, a limited circle. According to him, the rise of exchange economy that led to monetization of relations between feudal lords and the peasant mass somehow signaled the dissolution of feudalism.

According to Sweezy, external factor was the Prime Mover, as he identifies primarily the expansion of trade. Though he is not very detailed about from where to begin looking for trade, he says, there were several ways in which the System of Production for exchange acted upon the System of Production for use. Firstly, it provided a wide variety of commodities, sufficient to draw out the feudal classes into market. In this manner it makes them willing to enter the System of Exchange Production. Thus, the feudal lords were connected to the market in a sure way. The need to buy generated a pressure to sell and the only way they could sell, was to produce more efficiently. Therefore there was a need to re-organize the manors. This really changed the system of production for use.

Kohachiro Takahashi in his work- 'Science and Society' (1953) argues that the belief that the emergence of money rent was somehow incompatible with feudal economic relations is not borne out by evidence. He rejects Sweezy's thesis and suggests that the contradiction between Feudalism and Capitalism is not the contradiction between 'System of Production for Use' and 'System of Production for the Market' but between feudal land-property (serfdom) and an industrial capital (wage-labor system). He makes numerous interesting criticism of both proposition made by both Dobb and Sweezy. He observed that Sweezy had not given a clear and explicit definition of Feudalism, and asserts that several of his criticism (of Dobb) was not substantive and in fact it was just word play. Taka Hashi assigns the role of the Prime Mover in the transition of inner contradiction and says that trade influences the process of disintegration only to the extent to which, these internal contradictions have been worked out. He says, Dobb is right in saying that Origins of capitalism should be seen not in the utilities of the Bourgeoisie but in small Bourgeoisies.

Taka Hashi also criticizes Dobb, claiming that Dobb is wrong in saying that the Putting out System in the first way is a transitional phase. He finds Sweezy more correct here. He finds Dobb confused between the Putting out System and the Domestic System.

Finally, Taka Hashi provides an understanding of Capitalism in Prussia and Japan. The way in which Capitalism develops is determined by pre-existing social structure. Thus, whereas, feudal property has disappeared in England and France, it remained in Prussia and Japan. Here, the final development in Capitalism was influenced by external factors as by internal, since the pressure for industrialization was essentially external, as it was seen as necessary for adequate, militarization. Thus, in these areas, Capitalism is finally achieved within the feudal structure; hence the nature of Capitalism is very different.

Giuliano Procacci feels that while Dobb and other writers of his school are convincing in their refutation of Pirenne's thesis. They are less convincing in their historical reconstruction of the internal dialectic of Feudalism, for they often seem defensive and critical.

Christopher Hill also intervened in the debate on Dobb's behalf and made an important clarification about the nature of the period of transition. He said that until features of Feudalism had fully disappeared, one cannot speak of the passage of Feudalism- it was a resilient mode. So this was the period of the decline of Feudalism with the simultaneous development of Capitalism.

In the 1950s, another dimension was added to this debate away from Dobb-Sweezy debate. This was the significant non-Marxist intervention in one debate, scholars like M.M. Poston and Emmanuel Le Roy Ladurie, W. Abel, A.E. Verhust who put forward the 'Demographic Model Theory'. This theory has been constructed in opposition to Sweezy's model. They were of the view that peasant's freedom/un-freedom and economic development in Europe were determined by the Demographic Fluctuation, and Pre- Industrial societies had cycles in which appeared in 2 parts. Once the population out-stripped production, it led to a population-production disproportion. This is the critical phase in cycle because the demographic response to this cycle is a demographic collapse, after which once again the balance between population-production is restored, the cycle resumes. This cycle is self correcting. Once this cycle reached certain natural checks, restored the cycle. It is on this cycle that peasant freedom/un-freedom rests.

M.M. Postan asserts that in medieval period, the market force was far from automatic in bringing out the dissolution of serfdom. He begins by outlining population, estimated for the period based on the figure of Dooms Day Book, statistics concerning the Black Death and J.C. Russell's work- 'British Medieval Population' (1948). He reaches the conclusion that there is clear evidence for increasing population till the beginning of 14th century. He also links the rise in wages in this period to the trend of population decline. He argues that the demographic expansion has reached peak where the produce of the land was inefficient to maintain the populace.

Perry Anderson also makes an important contribution by attempting to synthesize non-Marxist themes such as demography with the conventional Marxist emphasis on social relations. He, like Sweezy, stressed the importance of towns and international trade. According to him, the appearance of the money rent given by the tenant to the lord caused a fundamental change in Feudalism. Moreover the bourgeoisie existed within the Feudalism but their interests were different and so a conflict arose. As a result there was a displacement of coercion upwards towards centralized, militarized Absolute Monarchy. This marked a critical step towards rise of Capitalism.

In 1970s, Robert Brenner published his much known work- 'Agrarian Class Structure and Economic Development in Pre-Industrial Europe' in which he offered an illuminating criticism of 'Demographic Model'. According to Brenner, the Demographic Model fails to adequately explain the forces that propelled with the transition from Feudalism to

Capitalism. Brenner made an important contribution in the transition debate. In course of his study he raised some extremely important questions. Why Western and Eastern Europe came upon different patterns of change? Secondly, why did England witnessed the developments of Capitalist social relations centuries ahead of the rest?

Robert Brenner believed that the Demographic Crisis was inbuilt into the feudal mode, through the relation of production the mode of production was such that it was bound to run into a crisis of productivity, accumulation and thereafter finally of subsistence. Brenner points out that feudal lord had easy access to labour, however the lords never made any attempts to strive improvement in order to achieve greater productivity.

M.M. Poston, on the other hand talk of Demographic Crisis leading to a short supply of labour which gave the serfs a bargaining tool for greater freedom. However, Brenner argues that why is it that serf win greater freedom in Western Europe but not in Eastern Europe?

According to Brenner, the answer to this lies in class struggle and the balance of power which in Eastern Europe was in favor of feudal lords. It is this difference in balance of power in Eastern and Western Europe which has to do with historically different accumulations of class resources while the peasantry in Western Europe is able to collect resource, this isn’t in Eastern Europe.

Secondly, Brenner argues that there was the presence of class solidarity and class consciousness among the peasantry in Western Europe whereas the lack of same defeated the peasant struggle in Eastern Europe.

Regarding the 2nd question which Brenner put up on the rise of capitalism in England, centuries ahead of the rest? Brenner understood a comparative study of conditions of France and England.

By 15th – 16th century, all of Western Europe saw the weakening of Feudalism, but only in England did capitalism appear as early as in the 16th century (approx.). In France, absolutism emerged. Brenner says that this was because of a difference in the way in which the state intervened in the class struggle in different countries. In France, at this time, the state had emerged as a competitor to the feudal aristocracy. The state helped to consolidate the property of petty producers by fixing the rent in law. The increase in the king's power required a reduction in the power of landlords and so the king secured peasant property, creating his own resource base. France thus became a land of small property. Brenner estimated that 45-50% of land in France was in the peasant sector. Thus, state intervention in France in the made the change to capitalism more difficult.

In contrast, in England, the state intervened in support of the feudal aristocracy and helped in dispossession of small peasants and appropriation of their lands by raising the rent arbitrarily. Every time the peasant successors had to take over the land, an entry-fine had to be paid to the feudal lords to recognize their legitimate claim over the land. If a person could not pay the entry-fine, he was evicted from his land. Large scale eviction led to large landed estates of lords. These were the beginnings of capitalism, with increasing dispossession and monopolization of property by landlords. But he also points out that merely large scale landholdings did not mean that there was capitalist development. New kind of 'Property Relations' was the basic condition for the rise of Capitalism.

Robert Brenner says that the feudal mode of production is prone to recurring crisis due to its relations of production. But with the emergence of new social relations of production, the ability of English agriculture increased, these crises come to an end, and England became the first European country to break out to self-sustaining growth and development and Capitalism.

Brenner thesis has been faulted on several counts. Emmanuel Le Roy Ladurie attacked Brenner for mixing up economic and political factors by talking about surplus-extracting and ruling classes as if they were one and the same.

M.M. Postan and John Hatcher critiques Brenner by raising a very important question- can a historical factor be proved invalid if it doesn't lead to the same results in two different situations and region? Further Demographic Factors are not all- determining the limited purpose was to relate 'periodic Economic Fluctuations to Demographic Trends'.

Guy Bois offering critique of Brenner thesis accepts the role of Demography in feudal crisis but he criticizes Demographic School of writers for ignoring the role of many other factors like the evolution of seigneurial and other royal levy. He also rejects the notion that economic mechanism alone was responsible for the Demographic regression.

Heide Wunder said that the thesis was 'Anglo-centric', focusing mainly on England. He questioned the divergent evolution of peasant class organization in East and West Elbian Germany.

One of the most recent works on 'Transition Debate' is by E.M. Wood in her work, 'The Origin of Capitalism' (1999). She tries to re-access the significance of this debate in the post- soviet era. She believes that capitalism socialist relations are specific relation which appeared in England only in 16th-17th century. In Capitalism, market isn't a opportunity but an imperative and profit maximization, capital accumulation are to be achieved through reduction in cost of production.

Wood states that, Capitalism emerges not only in urban Western Europe nut also in rural England and has defined it as- Bourgeoisie Revolution.

E.A. Wringley in his work- 'Change, Chance and Community, argued that no amount of advance of capitalist type could lead to change in the new type of economy. They could increase producer to a certain limit. But it was not enough to propel Europe out of medieval cycle of crisis. The labor used was exhaustible and subject to the law of diminishing returns. He called these as- 'Organic Economies', which used organic sources of energy like humans, cattle, coal etc. A change in property relations just converted it to an 'Advanced Organic Economies'. He suggests this breakthrough happened by chance because England happens to have coal in abundance.

Thus we see that the Transition Debate is a complex of extremely varied discussions and themes. In course of this entire debate we come across a whole range of hypothesis which on the one hand help us understand some key concepts but on the other hand also leaves some fundamental questions to which we are yet to find answers. The debate remains an open ended one and several of issues involved continue to be fiercely debated in scholarly circles. As new researches are undertaken, they'll help us find answers to certain questions or at least help us have a better understanding of some of the issues which remain unanswered.

7.3 DOBB-SWEEZY DEBATE ON TRANSITION FROM FEUDALISM TO CAPITALISM

One of the liveliest academic debates in recent times relate to the question of what led to the decline of feudalism and the rise of capitalism. It is commonly identified as the ‘transition debate’. The Dobb-Sweezy transition debate began between the Marxists and later amongst shifted to the Marxist and non-Marxist scholars too. The main controversy began on the issues such as the causes that led to the transition, whether these were internal or external; the principal social class responsible for this transition and the class that dominated the society during this change; whether it was market or the class struggle that delivered the output of this transition and the second issue was the stages in the transition [whether it was a result of two stages (Dobb) or three stages (Sweezy)]. This unending debate began with the publication of Maurice Dobb’s stimulating work- “studies in the development of capitalism” (1946). It was vehemently challenged by Paul Sweezy, who also gained the support of Wallenstein. This debate expanded among wider range of historian who supported either Dobb or Sweezy. Dobbs views are strongly supported and elaborated by scholars such as Hilton, Porchnev, hill, Takahashi, Anderson and many others. Henri Pirenne has given a background to this debate. According to him, the classical understanding of the decline of feudalism and consequent rise of capitalism was in term of a so called “commercialization model”. The primary tenant of this model was the socioeconomic formations in Europe in the feudal period were primarily determined by the decline and revival if trade in the Mediterranean region. The waning of Islamic power in the 11th -13th century in this region led to the revival of European trade, which had widespread effect on the European feudal system. It led to the growth of new trade- communication, rise of town, percolation of money etc. Capitalism was thus coming home to the Europeans. In 1946, Maurice Dobb published his work ‘Study in the Development of Capitalism’. His work challenged the ‘Commercialisation Model’. In his work, he tried to highlight issue related to the factors responsible for the transition from feudal society to capitalist society. He provides the first major explanation for the decline of feudalism. Dobb asserts that the feudal economy can't simply be described as 'natural economy'. According to him, trade never disappeared from feudal society and in fact could be a significant part of the feudal society. Hence development of trade does it for the desolation of feudalism. Dobb representing the classical Marxist approach assigns the decisive role to internal relations of feudalism. He feels that the need of additional revenue promoted and increased the pressure on the producer to a point where this pressure became unbearable. According to Dobb and many other scholars like Hilton, Takahashi and Eric Hobsbawn, it is internal relationship of feudal mode of production that determines the system's disintegration. The absence of technology, low productivity, of the manorial economy, the attempts by lords to augment taxes, an increased need of revenue for wars, brigandage and crusades and the extravagances of the nobles, combined to act as a drain on feudal revenue and pushed feudalism towards crisis. Moreover, Dobb says, desolation of feudalism was very slow and uneven all over Europe, due to various factors. One of the factors was the access of the peasantry to alternative places with fewer feudal restrictions. Another important factor was the relative political power of the land owning class and serfs. This differed in various parts of Europe. In Western Europe, peasants had managed to accumulate small freedom and rights for themselves over the centuries and gradually the balance of power tilted towards the peasantry to such an extent that when 14th century feudal crisis occurred, the peasantry was able to use it at their advantage. Thus, in the 11th century continuous depredation of land of western tribes ended. This led to an agrarian revival and extension of agriculture leading to expanding population. By the end of 13th century and the beginning of 14th century, Land-Man ratio reached proportions where population may out stripped production. The ensuing massive scarcity of labour underlay the 14th century feudal crisis. After the feudal crisis, feudal relations crumbled and the feudal mode of production reached an advance stage of disintegration. But this didn't immediately lead to smooth capitalist relation. There was a period of transition, characterised by production that was neither feudal nor yet capitalist. Independent from feudalism, this mode of production was characterised as ‘petty mode of production’. According to Dobb, once the petty mode had freed itself from feudal control, the process of social differentiation within petty mode started, leading to accumulation of capital. The transition to capitalism was a long drawn process which took in different phases. Hobsbawn supports and elaborates the arguments of Dobb. He points out the transition from feudal to capitalist mode of production was uneven and not straightforward process. Hilton says, the crisis of feudalism also involves the most advanced section of ‘bourgeois’ development within the feudal system. For Hobsbawn, the definite triumph of capitalism is reflected through the industrial, American and French revolution. Rodney Hilton lends full support to the ‘property relation’ perspective of Dobb. He agrees that the growth and decay of feudalism was the result of the factors operating within it and he considers feudal rents to be the prime mover. He suggests that the fundamental law of feudal society was the tendency of the exploiting class to realize the maximum rent from the labour of direct producers. This conflict with the necessities of social growth resulted in a contraction within the exploiting class itself. The member of this class began to compete with each other to establish their domination. This strives for power lead to increase the feudal rent to maintain their position. Thus, it was struggle for power and land control that ignited the crisis in which feudal rent became prime mover. Dobb argues that it were the internal factors with the feudal society he describes as ‘dynamic mode of production’ that led the transition towards capitalism. According to him, the wastage and inefficiency of the feudal mode of production brought about the crisis in the 14th century, with this the continuous wars and excessive exploitative nature of this system which caused a number of evidences of peasant protest accelerated the process towards transition. He also argued that this feudalism was a 2 stage process i.e. between 9 th -17th century the society was feudal dominant and with the start of 18th century, the transition to capitalism took place.

Sweezy objects Dobb’s identification of feudalism and his explanation for the transition, he is of the opinion that Dobb’s theory has a number of problems associated with it. He is of the opinion that there was no major historical work to support Dobb's analysis and the major works that are present are against his theory. There are significant aspects in his analysis that no historical evidence supports and does not sustain his analysis (such as the 'stage of realisation'). He also critiques Dobb for projecting the internal factors responsible for the transition but he fails to explain the motor force resulting only in transition to capitalism. He also objects Dobb's identification of feudalism with 'serfdom' as interchangeable terms, and calls his definition inadequate. He also disagrees with Dobb's analysis that the transition process was a 2 stage process as for him it was a 3 stage process (i.e. 9th -14th century, feudalism was a dominant process; 14th -17th century was an interim phase which was distinct from both feudalism and capitalism in its economic, social and political characters, and the last was the 18th century which saw the rise of capitalism. According to Paul Sweezy, the distinctive feature of feudalism was its objective of production (i.e. for self-consumption rather than for market). Hence, it is a mode of production that lacks trade and market. Sweezy along with the support from Wallenstein bring out the role of market and exchange economy in the decline of feudalism and rise of capitalism. Sweezy provides an alternative antithetical view. He adopts a market centric approach called "commercial model". The main characteristic of feudal mode according to Sweezy was actually a "system of production" for use that is the amount to be produced is known and limited. He looked at the economy of lord's manor- one using serfs/labour, production for the lord, his retinue and dependent population that is, a limited circle. According to him, the rise of exchange economy that led to monetization of relations between feudal lords and the peasants mass somehow signalled the dissolution of feudalism. He believes that the external factor was the prime mover, as he identifies primarily the expansion of trade. Though he is not very detailed about from where to begin looking for trade, he says, there were several ways in which the "system of production" for exchange acted upon the system of production for use. First, it provided a wide variety of communities, sufficient to draw out the feudal classes into market. In this manner it makes them willing to enter the system of exchange production. Thus, the feudal lords were connected to the market in a sure way. The need to buy generated a pressure to sell and the only way they could sell, was to produce more efficiently, therefore there was a need to re organise the manors. This really changed the system of production for use. He is of the opinion that it was the external factors such as 1) long distance trade and market 2) urban trading centres 3) the merchant class which were responsible factors for the transition. He explains that the revival of long distance trade in the 14th century played an important role in the transformation. Also the emergence of urban centres acted as magnets to the over-exploited peasants and led to mass migration resulting in the dissolution of feudal ties and relations. These new centres emerged politically outside the feudalism and belonged to the new class of merchants, the urban centre economy was no longer a self-production unit but catered to long distance. He believed that it was the emergence of urban centres that led to the decline of feudalism as without it, the emergence of long distance trade could not bring the change and the new social class of merchants that emerged in these centres provided leadership to the process of transition. According to Dobb, while defining feudalism Sweezy gives over emphasis on the nature of circulation and consumption to determine the nature of feudal mode of production, which was incorrect because in the Marxist mode of production, the nature of production determined the nature of consumption and not vice-versa. The factors pointed out as external according to Dobb, were actually internal processes. Dobb believes that trade and market were important for feudalism as any other market. He also points out that the merchant class was not extinct in feudal system, as they traded in luxurious objects and the trade that emerged during 14th -17h century was feudal trading class. The principal factors for transition pointed out by Sweezy were incorrect as capitalism did not occur in urban centres, prime trading centres or place that had numerous merchant class population. He cites the example of Manchester, north England which first experienced rise of capitalism which was rural in character and not urban. He also points out the reasons given by Sweezy to describe feudalism as static was incorrect as it was dynamic mode as according to him, feudalism never stabilizes. Dobb is of the opinion that it was the role of “independent petty producers” that was far more significant in transition than that of merchant class as they invested their profits in a very different way as compared to the merchant class who did not invest to widen the production base but to purchase feudal property and titles, etc. whereas the independent petty producers invested in modernization and in the expansion of the mode of production, hence their role was far more revolutionary than that of the merchant class, this conclusion was deprived from Marx's tropical vol II. Dobb calls long distance trade as a subordinate cause which Sweezy has pointed as the principle cause. Dobb also believes that class equilibrium that Sweezy believes, can never exist and was his piece of imagination as it was the aristocrat class that was dominant and the subsequent works prove it. Takahashi argues that the belief that the emergence of money rent was somehow incompatible with the feudal economic relations is not borne out by evidence. He rejects Sweezy's thesis and suggests that the contradiction between feudalism and capitalism is not the contradiction between 'system of production for use' and 'system of production for market' but between feudal land and industrial capital. He observes that Sweezy had not given a clear and explicit definition of feudalism and asserts that several of his criticism of Dobb was not substantive and in fact it was just word play. He assigns the role of prime movers to inner contradiction and says that trade influences the process of disintegration only to the extent to which, these internal contradictions have been worked out. He says, Dobb is right in saying that origins of capitalism should be seen not in the utilities of bourgeoisie but in small bourgeois. He also critics Dobb for claiming he was wrong in saying that the putting out system in the first way is a transitional phase. He finds Sweezy more correct here. He finds Dobb confused between the putting out system and the domestic system. He writes that the way in which capitalism develops id determined by pre-existing social structure. Giuliano Procacci feels that while Dobb and others writers are convincing in their regulation of Pirenne's thesis. They are less convincing in their historical reconstruction of the internal dialectic of feudalism, for they often seem defensive and critical. Hill also intervened in the debate and said that until feature of feudalism had fully disappeared one cannot speak of the passage of feudalism so this was the period of decline of feudalism with simultaneous development of capitalism and supports Dobb's theory of transition. The debate between Dobb and Sweezy was on every aspect of this transition. For Dobb, the definition of feudalism has two key aspects (force of labour, form of exploitation) whereas for Sweezy it was the objective of production that was of importance. Dobb called feudalism as a dynamic mode of production to which Sweezy disagreed and instead called it a static mode of production. The debate was also on the matter of causes whether external (Sweezy) or internal (Dobb) factors led to this transition. This debate still remains unsolved and with every new discovery it is again open for debate among the historians.

7.4 CRITICISM

Criticism of capitalism ranges from expressing disagreement with the principles of capitalism in its entirety to expressing disagreement with particular outcomes of capitalism.

Criticism of capitalism comes from various political and philosophical approaches, including anarchist, socialist, religious and nationalist viewpoints. Some believe that capitalism can only be overcome through revolution, and some believe that structural change can come slowly through political reforms. Some critics believe there are merits in capitalism and wish to balance it with some form of social control, typically through government regulation (e.g. the social market movement).

Prominent among critiques of capitalism are accusations that capitalism is inherently exploitative, that it is unsustainable, that it creates economic inequality, that it is anti-democratic and leads to an erosion of human rights and that it incentivizes imperialist expansion and war.

Anarchist criticisms of capitalism

Emma Goldman denounced wage slavery by saying: "The only difference is that you are hired slaves instead of block slaves."

The authors of An Anarchist FAQ state that anarchists have long recognised that capitalism is by its very nature hierarchical. The worker is subjected to the authority of the boss during working hours (sometimes outside work too). They state: "This hierarchical control of wage labour has the effect of alienating workers from their own work, and so from themselves. Workers no longer govern themselves during work hours and so are no longer free". According to them, this is why "[c]apitalism, by treating labour as analogous to all other commodities denies the key distinction between labour and other "resources"—that is to say its inseparability from its bearer—labour, unlike other "property," is endowed with will and agency. Thus when one speaks of selling labour there is a necessary subjugation of will (hierarchy)... Creative, self-managed work is a source of pride and joy and part of what it means to be fully human. Wrenching control of work from the hands of the worker profoundly harms his or her mental and physical health. Capitalism itself was created by state violence and the destruction of traditional ways of life and social interaction was part of that task. From the start, bosses spent considerable time and energy combating attempts of working people to join together to resist the hierarchy they were subjected to and reassert human values. Such forms of free association between equals (such as trade unions) were combated, just as attempts to regulate the worse excesses of the system by democratic governments. Indeed, capitalists prefer centralized, elitist and/or authoritarian regimes precisely because they are sure to be outside of popular control (see section B.2.5). They are the only way that contractual relations based on market power could be enforced on an unwilling population".

For the influential German individualist anarchist philosopher Max Stirner, private property is a "spook" which "lives by the grace of law" and "becomes 'mine' only by effect of the law". In other words, private property exists purely "through the protection of the State, through the State's grace". Recognising its need for state protection, Stirner is also aware that "[i]t need not make any difference to the 'good citizens' who protects them and their principles, whether an absolute King or a constitutional one, a republic, if only they are protected. And what is their principle, whose protector they always 'love'? Not that of labour", rather it is "interest-bearing possession [...] labouring capital, therefore [...] labour certainly, yet little or none at all of one's own, but labour of capital and of the—subject labourers".

French anarchist Pierre-Joseph Proudhon opposed government privilege that protects capitalist, banking and land interests and the accumulation or acquisition of property (and any form of coercion that led to it) which he believed hampers competition and keeps wealth in the hands of the few. The Spanish individualist anarchist Miguel Giménez Igualada sees "capitalism is an effect of government; the disappearance of government means capitalism falls from its pedestal vertiginously...That which we call capitalism is not something else but a product of the State, within which the only thing that is being pushed forward is profit, good or badly acquired. And so to fight against capitalism is a pointless task, since be it State capitalism or Enterprise capitalism, as long as Government exists, exploiting capital will exist. The fight, but of consciousness, is against the State".

Within anarchism there emerged a critique of wage slavery which refers to a situation perceived as quasi-voluntary slavery, where a person's livelihood depends on wages, especially when the dependence is total and immediate. It is a negatively connoted term used to draw an analogy between slavery and wage labor by focusing on similarities between owning and renting a person. The term "wage slavery" has been used to criticize economic exploitation and social stratification, with the former seen primarily as unequal bargaining power between labor and capital (particularly when workers are paid comparatively low wages, e.g. in sweatshops) and the latter as a lack of workers' self-management, fulfilling job choices and leisure in an economy.

Libertarian socialists believe if freedom is valued, then society must work towards a system in which individuals have the power to decide economic issues along with political issues. Libertarian socialists seek to replace unjustified authority with direct democracy, voluntary federation and popular autonomy in all aspects of life, including physical communities and economic enterprises. With the advent of the Industrial Revolution, thinkers such as Proudhon and Marx elaborated the comparison between wage labor and slavery in the context of a critique of societal property not intended for active personal use, Luddites emphasized the dehumanization brought about by machines while later Emma Goldman famously denounced wage slavery by saying: "The only difference is that you are hired slaves instead of block slaves". American anarchist Emma Goldman believed that the economic system of capitalism was incompatible with human liberty. "The only demand that property recognizes", she wrote in Anarchism and Other Essays, "is its own gluttonous appetite for greater wealth, because wealth means power; the power to subdue, to crush, to exploit, the power to enslave, to outrage, to degrade". She also argued that capitalism dehumanized workers, "turning the producer into a mere particle of a machine, with less will and decision than his master of steel and iron".

Noam Chomsky contends that there is little moral difference between chattel slavery and renting one's self to an owner or "wage slavery". He feels that it is an attack on personal integrity that undermines individual freedom. He holds that workers should own and control their workplace. Many libertarian socialists argue that large-scale voluntary associations should manage industrial manufacture while workers retain rights to the individual products of their labor. As such, they see a distinction between the concepts of "private property" and "personal possession". Whereas "private property" grants an individual exclusive control over a thing whether it is in use or not and regardless of its productive capacity, "possession" grants no rights to things that are not in use.

In addition to anarchist Benjamin Tucker's "big four" monopolies (land, money, tariffs and patents) that have emerged under capitalism, neo-mutualist economist Kevin Carson argues that the state has also transferred wealth to the wealthy by subsidizing organizational centralization in the form of transportation and communication subsidies. He believes that Tucker overlooked this issue due to Tucker's focus on individual market transactions, whereas Carson also focuses on organizational issues. The theoretical sections of Studies in Mutualist Political Economy are presented as an attempt to integrate marginalist critiques into the labor theory of value. Carson has also been highly critical of intellectual property. The primary focus of his most recent work has been decentralized manufacturing and the informal and household economies. Carson holds that "[c]apitalism, arising as a new class society directly from the old class society of the Middle Ages, was founded on an act of robbery as massive as the earlier feudal conquest of the land. It has been sustained to the present by continual state intervention to protect its system of privilege without which its survival is unimaginable".

Carson coined the pejorative term "vulgar libertarianism", a phrase that describes the use of a free market rhetoric in defense of corporate capitalism and economic inequality. According to Carson, the term is derived from the phrase "vulgar political economy", which Karl Marx described as an economic order that "deliberately becomes increasingly apologetic and makes strenuous attempts to talk out of existence the ideas which contain the contradictions [existing in economic life]". Capitalism has been criticized for establishing power in the hands of a minority capitalist class that exists through the exploitation of a working class majority; for prioritizing profit over social good, natural resources and the environment; and for being an engine of inequality and economic instabilities.

Conservative criticisms

Edmund Burke (1729–1797) accepted the liberal ideals of private property and the economics of Adam Smith (1723–1790), but thought that economics should remain subordinate to the conservative social ethic, that capitalism should be subordinate to the medieval social tradition and that the business class should be subordinate to aristocracy.

Distributism is an economic ideology asserting that the world's productive assets should be widely owned rather than concentrated. It was developed in Europe in the late 19th and early 20th centuries based upon the principles of Catholic social teaching, especially the teachings of Pope Leo XIII in his encyclical Rerum novarum (1891) and Pope Pius XI in Quadragesimo anno (1931). It views both capitalism and socialism as equally flawed and exploitative, and it favors economic mechanisms such as small-scale cooperatives and family businesses, and large-scale antitrust regulations.

Peter Kolozi in Conservatives Against Capitalism relies on Norberto Bobbio’s definition of right and left, dividing the two camps according to their preference for equality or hierarchy. Kolozi argued that capitalism has faced persistent criticism from the right since the beginning of the

Industrial Revolution. Such critics, while heterogeneous, are united in the belief “that laissez-faire capitalism has undermined an established social hierarchy governed by the virtuous or excellent.”

Murtaza Hussain writes in The Intercept:

For all their differences, there is one key aspect of the intellectual history charted in “Conservatives Against Capitalism” that deals with an issue of shared concern on both the left and the right: the need for community. One of the grim consequences of the Social Darwinian pressures unleashed by free-market capitalism has been the destruction of networks of community, family, and professional associations in developed societies. [...] These so-called intermediate institutions have historically played a vital role giving ordinary people a sense of meaning and protecting them from the structural violence of the state and the market. Their loss has led to the creation of a huge class of atomized and lonely people, cut adrift from traditional sources of support and left alone to contend with the power of impersonal economic forces.

Socialist criticisms

Industrial Workers of the World's "Pyramid of Capitalist System" cartoon is an example of socialist critique of capitalism and of social stratification.

Socialists argue that the accumulation of capital generates waste through externalities that require costly corrective regulatory measures. They also point out that this process generates wasteful industries and practices that exist only to generate sufficient demand for products to be sold at a profit (such as high-pressure advertisement), thereby creating rather than satisfying economic demand.

Socialists argue that capitalism consists of irrational activity, such as the purchasing of commodities only to sell at a later time when their price appreciates (known as speculation), rather than for consumption. Therefore a crucial criticism often made by socialists is that making money, or accumulation of capital, does not correspond to the satisfaction of demand (the production of use-values). The fundamental criterion for economic activity in capitalism is the accumulation of capital for reinvestment in production. This spurs the development of new, non-productive industries that do not produce use-value and only exist to keep the accumulation process afloat. An example of a non-productive industry is the financial industry, which contributes to the formation of economic bubbles.

Socialists view private property relations as limiting the potential of productive forces in the economy. According to socialists, private property becomes obsolete when it concentrates into centralized, socialized institutions based on private appropriation of revenue (but based on cooperative work and internal planning in allocation of inputs) until the role of the capitalist becomes redundant. With no need for capital accumulation and a class of owners, private property of the means of production is perceived as being an outdated form of economic organization that should be replaced by a free association of individuals based on public or common ownership of these socialized assets. Private ownership imposes constraints on planning, leading to uncoordinated economic decisions that result in business fluctuations, unemployment and a tremendous waste of material resources during crisis of overproduction.

Excessive disparities in income distribution lead to social instability and require costly corrective measures in the form of redistributive taxation. This incurs heavy administrative costs while weakening the incentive to work, inviting dishonesty and increasing the likelihood of tax evasion (the corrective measures) while reducing the overall efficiency of the market economy. These corrective policies limit the market's incentive system by providing things such as minimum wages, unemployment insurance, taxing profits and reducing the reserve army of labor, resulting in reduced incentives for capitalists to invest in more production. In essence, social welfare policies cripple capitalism's incentive system and are thus unsustainable in the long-run. Marxists argue that the establishment of a socialist mode of production is the only way to overcome these deficiencies. Socialists and specifically Marxian socialists, argue that the inherent conflict of interests between the working class and capital prevent optimal use of available human resources and leads to contradictory interest groups (labor and business) striving to influence the state to intervene in the economy at the expense of overall economic efficiency.

Early socialists (utopian socialists and Ricardian socialists) criticized capitalism for concentrating power and wealth within a small segment of society who do not utilize available technology and resources to their maximum potential in the interests of the public.

Marxian criticisms

Karl Marx saw capitalism as a historical stage, once progressive but which would eventually stagnate due to internal contradictions and would eventually be followed by socialism. Marx stated that capitalism was nothing more than a necessary stepping stone for the progression of man, which would then face a political revolution before embracing the classless society. Marxists define capital as "a social, economic relation" between people (rather than between people and things). In this sense, they seek to abolish capital. They believe that private ownership of the means of production enriches capitalists (owners of capital) at the expense of workers ("the rich get richer and the poor get poorer"). In brief, they argue that the owners of the means of production do not work and therefore exploit the workforce. In Marx's view, the capitalists would eventually accumulate more and more capital impoverishing the working class, creating the social conditions for a revolution that would overthrow the institutions of capitalism. Private ownership over the means of production and distribution is seen as a dependency of non-owning classes on the ruling class and ultimately a source of restriction of human freedom.

Marxists have offered various related lines of argument claiming that capitalism is a contradiction-laden system characterized by recurring crises coming from the tendency of the rate of profit to fall and having a tendency towards increasing severity. Capitalism is seen as just one stage in the evolution of the economic system. Immanuel Wallerstein, approaching matters from a world-systems perspective, cites the intransigence of rising real wages, rising costs of material inputs and steadily rising tax rates, along with the rise of popular antisystemic movements as the most important global secular trends creating unprecedented limiting pressures on the accumulation of capital. According to Wallerstein, "the capitalist world-economy has now entered its terminal crisis, a crisis that may last up to fifty years. The real question before us is what will happen during this crisis, this transition from the present world-system to some other kind of historical system or systems".

In mainland China, differences in terminology sometimes confuse and complicate discussions of Chinese economic reform. Under Marxist ideology, capitalism refers to a stage of history in which there is a class system in which the proletariat is exploited by the bourgeoisie. Officially, according to the Chinese governments state ideology, China is currently in the primary stage of socialism. However, because of Deng Xiaoping and subsequent leaders' Chinese economic reforms, instituting pragmatism within policy, China has undertaken policies that are commonly considered capitalistic, including employing wage labor, increasing unemployment to motivate those who are still working, transforming state owned enterprises into joint stock companies and encouraging the growth of the joint venture and private capitalist sectors. A contrary Marxist view would describe China as just another variant of capitalism (state capitalism), much like the former Soviet Union, which was also claiming to be operating on principals of socialism. This is echoed by what Mao Zedong termed "capitalist roaders", who he argued existed within the ruling party structures and would try to restore the bourgeoisie and thus their class interests to power reflected in new policies while only keeping the outer appearance of socialism for legitimacy purposes. Deng Xiaoping was identified as one of these "capitalist roaders" during the Cultural Revolution, when he was placed under house arrest.

Check Your Progress 1

Note : i) Use the space given below for your answers.

ii) Check your answer with the model answers given at the end of the unit.

1. How do you know the Transition Debate?

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2. Discuss the Dobb-Sweezy debate on transition from feudalism to capitalism.

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3. How do you know the Criticism of Capitalism?

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7.5 LET US SUM UP

One of the main modern criticisms to the sustainability of capitalism is related to the so-called commodity chains, or production/consumption chains. These terms refer to the network of transfers of materials and commodities that is currently part of the functioning of the global capitalist system. Examples include high tech commodities produced in countries with low average wages by multinational firms and then being sold in distant high income countries; materials and resources being extracted in some countries, turned into finished products in some others and sold as commodities in further ones; and countries exchanging with each other the same kind of commodities for the sake of consumers' choice (e.g. Europe both exporting and importing cars to and from the United States). According to critics, such processes, all of which produce pollution and waste of resources, are an integral part of the functioning of capitalism (i.e. its "metabolism").

Critics note that the statistical methods used in calculating ecological footprint have been criticized and some find the whole concept of counting how much land is used to be flawed, arguing that there is nothing intrinsically negative about using more land to improve living standards (rejection of the intrinsic value of nature).

Many environmentalists have long argued that the real dangers are due to the world's current social institutions that claim to promote environmentally irresponsible consumption and production. Under what they call the "grow or die" imperative of capitalism, they say there is little reason to expect hazardous consumption and production practices to change in a timely manner. They also claim that markets and states invariably drag their feet on substantive environmental reform and are notoriously slow to adopt viable sustainable technologies. Immanuel Wallerstein, referring to the externalization of costs as the "dirty secret" of capitalism, claims that there are built-in limits to ecological reform and that the costs of doing business in the world capitalist economy are ratcheting upward because of deruralization and democratization.

A team of Finnish scientists hired by the UN Secretary-General to aid the 2019 Global Sustainable Development Report assert that capitalism as we know it is moribund, primarily because it focuses on short term profits and fails to look after the long term needs of people and the environment which is being subjected to unsustainable exploitation. Their report goes on to link many seemingly disparate contemporary crises to this system, including environmental factors such as global warming and accelerated species extinctions and also societal factors such as rising economic inequality, unemployment, sluggish economic growth, rising debt levels, and impuissant governments unable to deal with these problems. The scientists say a new economic model, one which focuses on sustainability and efficiency and not profit and growth, will be needed as decades of robust economic growth driven by abundant resources and cheap energy is rapidly coming to a close.

7.6 KEY WORDS

Transition: A transition is a word or phrase that shows the relationship between paragraphs or sections of a text or speech. Transitions provide greater cohesion by making it more explicit or signaling how ideas relate to one another. Transitions are "bridges" that "carry a reader from section to section.

Feudalism: Feudalism was a combination of legal and military customs in medieval Europe that flourished between the 9th and 15th centuries.

Broadly defined, it was a way of structuring society around relationships derived from the holding of land in exchange for service or labour.

Capitalism: Capitalism is an economic system based on the private ownership of the means of production and their operation for profit. Characteristics central to capitalism include private property, capital accumulation, wage labor, voluntary exchange, a price system and competitive markets.

7.7 QUESTIONS FOR REVIEW

4. How do you know the Transition Debate?
5. Discuss the Dobb-Sweezy debate on transition from feudalism to capitalism
6. How do you know the Criticism of Capitalism?

7.8 SUGGESTED READINGS AND REFERENCES

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- T.H. Ashton and C.H.E. Philpin- The Brenner Debate:- Agrarian Class Structure and Economic Development in Pre-Industrial Europe; Population and Class relations in Feudal Society(M.M. Postan and John Hatcher); A Crisis in Feudalism (R.H. Hilton); Peasant Organization and Class Conflict in Easter & Western Germany
- Sinha Arvind- Europe in Transition from Feudalism to Capitalism
- Phukan Meenaxi- Rise of the Modern World
- From Feudalism to Capitalism: Transition or Transitions?- http://www.d.umn.edu/cla/faculty/jhamlin/4111/Readings/WallersteinTransition.pdf
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7.9 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress 1

1. See Section 7.2
2. See Section 7.3
3. See Section 7.4