A STUDY OF THE RELATIONSHIP BETWEEN POLITY AND ECONOMY IN ITS CONCEPTUAL PERSPECTIVE

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ABSTRACT

In the present era of interdependence among different spheres of individual's life, it becomes imperative that an inter-disciplinary approach should be adopted for avoiding the unnecessary multiplication of efforts. A realization of this fact by contemporary scholars has led to popularization of a new subject called Political Economy. In ancient times, Kautilya remarked that all undertakings depend upon finances. Hence, foremost attention shall be paid to the treasury. This remark exhibits the close relation between the political and economic field of any nation. The significance of this subject matter needs a careful and detailed analysis in the global field particularly. With this aim in mind, the present paper undertakes a comprehensive and comparative examination of various theories of political economy and their application in different parts of the world. This work not only examines the three conventional approaches for the study of the relation between politics and economics i.e., Mercantilism, Economic Liberalism and Marxism but it also reviews the contemporary conceptual development in the form of various Micro Theories like Rational Choice Theory, New Institutional Theory etc. The recent development of privatization and globalization has brought a significant impact on the economic and political structure and relation of various states which needs to be interrogated from the perspective of all the approaches of political economy. Hence, this study makes an attempt to analyse various conceptual perspectives of political economy and tries to provide a base for future research on this subject matter.

INTRODUCTION

The close relationship between Economics and Political Science may be traced in the fact that there was a time when the two were one in the form of 'Political Economy' and it still constitutes an important aspect in the contemporary period of interdisciplinary study. In ancient times, Kautilya wrote his Arthasastra on the subject of practical politics though the Sanskrit term `artha' signified wealth. Further, the 'Politics' of Aristotle treated Economics as the art of managing household that constituted an inseparable part of his political philosophy. With respect to close relationship between the two disciplines, Garner says: 'Political and Social life is obviously intermixed with, and the activities and even the forms of government are profoundly influenced by economic conditions.'

Due to this close relationship of politics and economics, the subject of political economy is of profound significance in international field also. The relationship between politics and economics, between states and markets in world affairs is the subject matter of political economy.

MEANING

The interdependent relationship between politics and economics is revealed from the fact that political rules and regulations constitute a framework within which the market functions. The existing forms of government determined production and distribution of wealth. At the same time, the economic strength is an important basis for political power. Thus, if economics is about the pursuit of wealth and politics about the pursuit of power, the two interacts in complicated ways.

Political Economy shifts our attention to the issues of war and poverty at the same time and also to who gets what in the international system. Scholars of political economy study the politics of economic activities. The most frequently studied of these activities are trade, monetary relations and MNCs. Most of them focus on the industrialized regions of the world, where most of the world's economic activity occurs. These all issues deal primarily with political bargaining over economic issues and thus fit within political economy as broadly defined.

Further, the conceptual framework used to study international security affairs applies to International Political Economy as well. The core concepts of power and bargaining apply to political economy, as does the emphasis on states as the most important actors and the idea that states tend to act in their own interest.

EMERGENCE OF THE CONCEPT

During the 1950s and 1960s, one could easily get the impression that many international scholars committed the misunderstanding of separating economics and politics. For a long time, economics and politics in international relation were seen as almost totally isolated from each other, as qualitatively different activities being studied with qualitatively different approaches. But this sharp distinction between politics and economics was increasingly questioned from the beginning of 1970s. The reasons for this change in attitude are: First, the system that politicians had set up to foster economic growth and international exchange after World War II- The Bretton Woods system- showed signs of crashes. In particular, the US was in economic difficulties which grew out of its deep involvement in the Vietnam War (1961-73). So, in times of economic crisis, it usually becomes clearer that politics and economics hang together. Secondly, decolonization had created a new group of politically weak and economically poor state in the international system. These newly independent countries called for a NIEO (New International Economic Order) at the UNO during 1970s i.e., the political proposal designed to improve the economic position of third world countries in the international system. These proposals did reveal how the economic position of countries in the international order is closely connected to political measure. Finally, the connection between politics and economics can be seen in the end of cold war. After 1989, Western Europe and the former USSR began to be reintegrated in the international system created by the west. They wanted both political integration and economic integration.

In a nutshell, there is a complex relationship between politics and economics, between states and markets, which international relation has to be able to grasp. That relationship is the subject of political economy or International Political Economy.

THEORIES

There is a need for different theoretical ways of approaching the connection between politics and economics. There are basically three theories which most scholars considered as the main theories of political economy; Mercantilism, Economic Liberalism and Marxism. These are theories in the very broad sense of a set of assumptions and values from which the field of political economy can be approach.

MERCANTILISM

This theory is associated with establishment of the modern, sovereign state during the Sixteenth and Seventeenth centuries. The political elites took the approach that economic activity is and should be subordinated to the primary goal of building a strong state. Mercantilist sees the international economy as an arena of conflict between opposing national interest, rather than an area of cooperation and mutual gain.

This approach generally shares with realism that each state must protect its own interests at the expense of others- not relying on international organization to create a framework for mutual gains. Mercantilist, therefore emphasize relative power. Economic competition between states is a 'zero-sum game', where one state's gain is another state's loss.

There were two different forms of economic rivalry among the states. The first is called Defensive or Benign Mercantilism; states look after their national economic interest because that is an important ingredient in their national security; such policies need not have generally negative effects on other states. The other form is Aggressive Mercantilism. Here the state's attempt to exploit the international economy through expansion policies: for example, the imperialism of the European colonial powers in Asia and Africa. Mercantilism thus sees economic strength and military-political power as complementary and not competing goals, in a positive feedback loop. Ever since Britain obtained a leading role in world politics through industrialization, mercantilists have underlined the need for countries to industrialize as the best way to obtain national power.

Mercantilism has been advocated by some eminent politicians and economists. Alexander Hamilton, one of the founding fathers of USA, was a strong proponent of Mercantilism in the form of protectionist policies aimed at promoting domestic industry in the USA. Friedrich List also supported Mercantilism. In the 1840s he developed a theory of 'Productive Power' which stressed that the ability to produce is more important than the result of producing. The successful 'developmental' states in East Asia like South Korea, Japan and Taiwan were based on Mercantilism ideology. They emphasize that economic success has always accompanied by a strong, commanding role for the state in promoting economic development.

Mercantilism believes economy as subordinate to the polity especially, the government. It is evident that increasing economic activities has increased state power. Further, when economic and security interest clash, the security interests have priority.

ECONOMIC LIBERALISM

Economic liberalism emerged as a critique of the comprehensive political control and regulation of economic affairs which dominated European state building in the 16th and 17th centuries, i.e., mercantilism. Liberals fashion a world in which political and economic concerns can and should be separated, in which trade and other economic transaction reside in a relatively politically free environment.

Adam Smith (1723-1790), the father of economic liberalism, believed that markets tend to expand spontaneously for the satisfaction of human needs — provided that the government does not interfere. The core liberal ideas include the rational individual actor, a belief in progress, and an assumption of mutual gain from free exchange. Liberalism holds that by building international organization, institutions and norms states can mutually benefit from economic exchanges.

Another economist, David Ricardo developed the 'Theory of Comparative Cost'. He argued that free trade i.e., commercial activities that are carried on independently of national borders-will bring benefit to all participants because free trade makes specialization possible and specialization increases efficiency, productivity and reduce the cost of production.

Thus, while mercantilism ascribe to the primacy of the state, of national security, and of military power in the organization and functioning in the international system, liberals believe that trade and economic intercourse are a source of peaceful relations among nations because the mutual benefits of trade and expanding interdependence among nation economies will tend to foster cooperative relations.

While liberalism might view states as 'trading states' interested only in 'absolute gains' in different to the gains achieved buy others, mercantilism sees states as 'territorial states' valuing relative gains' above all. The two views provide differing predictions, liberals see a rosy future' with shrinking distances' and opportunities for mutual gain through international interaction, while mercantilism is 'pessimistic' with states focusing more on immediate than long term benefits.

Though the liberal's view is regarded as Laissez- Faire economy but Laissez-Faire does not mean the absence of any political regulation rather it means that the state shall only setup those minimal underpinning that are necessary for the market to function properly. The conservative neoliberal economic policies of Margret Thatcher in Britain and of Ronald Regan in USA were both based on this classical Laissez-Faire doctrine. John Stuart Mill was in many ways a Laissez-Faire economic liberal but was also a supporter of limited state action in some area. In the 1930s John Maynard Keynes, the leading economist of the early 20th century, argued in favour of a market which was wisely managed by the state.

Economic liberals argue that the market economy operates according to its own economic laws automatically. Liberal economists are interested in maximizing the overall (joint) benefits from exchange - a condition called economic exchange is a positive - sum game.

DISTINCTION BETWEEN LIBERALISM AND MERCANTILISM

It is clear that liberalism emphases on the shared interest in economic exchanges whereas mercantilism emphases the conflicting interest. While liberals see the most important goal of economic policy as the maximum creation of total wealth through achieving optimal efficiency, mercantilist see the most important goal as the creation of the most favourable possible distribution of wealth.

While liberals see individual households and firms as the key actors in the economy and views government's most useful role as one of non-interference in economy except to regulate markets in order to help them function efficiently. Politics, in this view, should serve the interest of economic efficiency. But for mercantilist, by contrast, economics should serve politics: the creation of wealth underlies state power.

Further the distinction between liberalism and mercantilism is reflected in difference between hegemony and empire. Under hegemony a dominant state creates an international order that facilitates free trade but does not try to control economic transaction by itself. An empire, by contrast, controls economic transactions in its area centrally. The main reason for the dominance of liberalism in political economy is that in practice, great gains have been realized from free trade.

MARXISM

In the political economy of the 19th century, German philosopher and economist Karl Marx, in many ways, represents a fundamental critique of economic liberalism. Marx rejected liberalism and instead, show the economy as site of human exploitation and class inequality.

Marxist agrees with mercantilist that politics and economics are closely intertwined; both reject the liberal view of an economic sphere operating under its own laws. But where mercantilists see economics as a tool of politics, Marxist put economics first and politics second. Marxist view the two as joined with the capitalist economy characterized as essentially conflictual given the irreducible antagonism between the bourgeoisie and the proletariat where class distinction constitutes the defining dissimilarities and cut throat competition between capitalist systems which ultimately pits them against each other.

The Marxist view is materialistic, it is based on the claim that the core activity in any society concerns the way in which human beings produce their means of existence. Marxist believes that states are not autonomous, they are driven by ruling class interests and capitalist states are primarily driven by the interest of their respective bourgeoisie. For Marxist, class conflict is more fundamental than conflict between states. Further, as an economic system, capitalism is expansive; there is a never-ending search for new markets and more profits. Because classes cut across state borders, class conflict is not confined to states; instead, it expands around the world in the wake of capitalism. Thus, history of political economy can thus be seen by Marxist as the history of capitalist expansion across the globe.

Robert Cox (a neo-Marxist) theorizes a complex interplay between politics and economics, specified as the interaction between social forces, forms of states and world orders. As regarding the social forces of capitalism, they are currently involved in an intense process of economic globalization meaning an internationalising of production as well as migration from south to north. As regarding forms of state, there is variation between states because they link into the global political economy in different ways. Finally, regarding world order, the long-term tendency will be for replacement of the current global US dominance.

Another recent neo-Marxist analysis comes from Immanuel Wallerstein. His concept the World systems need not physically include the whole world; they are unified areas characterized by particular economic and political structures. The concept thus ties economics and politics together; a world system is characterized by a certain economic and a certain political structure with the one depending on the other.

But it is believed that the contribution by Wallerstein and Cox add a number of nuances to Marxist analysis. The basic Marxist view is that the economy is a site of exploitation and inequality between social classes, especially the bourgeoisie and the proletariat. Politics is to a large extent, determined by the socio-economic context. The dominant economic class is also dominant politically.

Marxist's political economy thus concerns the history of global capitalist expansion, the struggle between classes and state to which it has given rise around the world, and how a revolutionary transformation of that world might come about.

MARXIST AND REALIST

Both- Marxist and Realist, were agree on the competition and conflict between states. But realist explains it by pointing to the existence of independent states in a condition called anarchy. Marxist rejects this view as abstract and unhistorical. It is abstract because there is no concrete specification of the social forces that actually sustain the conflict between states.

Realist argue that Marxist view of the state is reductionist, that it reduces the state to a simple tool in the hands of the ruling classes, with no will of its own. But the states are strong actors in their own right. Thus, it is simply wrong to view the state as a mere instrument for other.

As an outcome of this criticism, most recent Marxist analysis has talked of a relative autonomy of the state form the ruling class; though the basic function of the capitalist state remains the safeguarding of the capitalist system.

THEORY OF HEGEMONIC STABILITY

The mercantilism emphasized the need for a strong state to create a liberal international economy for smooth functioning. A hegemon, a dominant military and economic power, is necessary for the creation and full development of a liberal world market economy, because in the absence of such a power, liberal rules cannot be implemented around the world. That is, in its simplest form, the theory of hegemonic stability which is indebted to mercantilist thinking about politics being in charge of economics. This theory was first set forth by Charles Kindleberger (1973) and then further developed by Robert Gilpin (1987).

These theorists believe that in the absence of such a hegemon, an open world economy will be much more difficult to sustain. There is a risk that economic relations will deteriorate into nationalistic, self-interested, protectionist competition, as it did during the world economic crisis of the 1930s, when countries pursued national policies, the effect of which was 'beggar your neighbours'.

There are two major historical examples of liberal hegemons: Great Britain during the late 19th century and the early 20th century and the USA after World War II. But by the 1970s, the US policy became more oriented towards national interest. Instead of sustaining the post-1945 liberal world economy, the US adopted protectionist measure to support her own economy and act as a 'Predatory hegemon.' More recently, the US remains the world's supreme power but does not feel the role of enlightened leadership. Instead, US policy is more narrowly focused on satisfying domestic interest group.

This discussion reveals that while mercantilism is correct in pointing to the need for a political framework as a foundation for economic activity that does not mean that there is one-way relationship between politics and economics. Rather, the economic sphere has a dynamic of its own and unequal economic development between states reshuffles the basis for political power.

Further the liberal claim that the market economy is an autonomous sphere of society is misleading; but it is true that once political regulation has created a market economy, that economy has a dynamic of its own. Thus, under the Hegemonic Stability Theory, liberalism, Marxism and mercantilism have each revealed an important aspect of political-economic relationship.

MODERNIZATION THEORY

By the 1950s, the development problems in the Third World began to be discussed. The various contributions of economic liberals were given the 'Modernization Theory'. The basic idea was that the Third World countries should be expected to follow the same developmental path taken earlier by the developed countries in the west: a progressive journey from a traditional, pre-industrial, agrarian society towards a modern, industrial, mass-consumption society. Development overcoming barrier of pre-industrial production, backward institutions and parochial systems which impeded the process of growth and modernization.

The theoretical endeavours among liberals or modernization theorists as they are often called in the development debate, concern identification of the full range of impediments to modernization as well as factors that promote modernization. A famous modernization theory by W.W.Rostow specifically stressed that the 'take-off, the crucial push in moving from traditional towards modern, is characterized by a marked increase in modern sector investment to a minimum of 10 percent of GNP. Other elements necessary for the modernization process to Third World countries were close market relations with the developed countries, foreign trade, FDI in the Third World by TNCs etc.

But this modernization theory of development was subjected to increasing criticism during the 1960s and 1970s. That was partly in reaction to the lack of progress in many Third World countries.

DEPENDENCY THEORY

The most radical critique of economic liberals came from neo-Marxist under development theory which is also known as Dependency Theory. It draws on classical Marxist analysis. But unlike Marx, Dependency Theorists argue in favour of a socialist model which is more decentralized and democratic. Their main aim however is not so much the formulation of alternative development models to those of capitalism or economic liberalism. Rather, in short, dependency theory is an attack on late capitalism. It is an effort to provide the theoretical tools by which Third World countries can defend themselves against globalizing capitalism. Under-development is meant as a process within the framework of the global capitalist system to which Third World countries have been subjected; they have been underdeveloped as an intentional by-product of the development of the west.

Regarding how development can be brought to the Third World, Radical Dependency Theorists, such as Andre Gunder Frank (1969; 1977) and Samir Amin (1976; 1990) do not hesitate to argue that Third World countries have to severely limit their ties to the capitalist world market. Moderate Dependency Theorists, such as Fernando Henrique Cardoso are less severe in their critique of the capitalist world market. They rather argue that some development in the Third World is possible even given the ties of external dependence on the capitalist west.

By the 1970s there was a blow to Dependency Theory's prediction of stagnation and misery and seemed to support liberal modernization theory. Moreover, Dependency Theory severely downplayed the domestic factors in their analysis such as the role of the state and domestic social forces.

MODERN MERCANTILISM

It emerged by the late 1980s and early 1990s. Mercantilism has not set forth a brief and clear statement about Third World development comparable to the one formulated by economic liberals and Dependency Theorists. But there is a broad and diverse mercantilist tradition in development which has gained new strength in recent years. The Mercantilist view of development strikes a balance between economic liberal and dependency views.

Modern Mercantilists thus, suggests a compromise between the extremes of economic autonomy and full integration into the global capitalist economy. For example, the developmental success of East Asia including Japan etc. A second core area of development where the mercantilists strike a balance concerns the market and the state i.e., between free market forces and state intervention.

Another example of mercantilist middle path in development thinking concerns the role of TNCs; while liberals often see TNCs as 'engines of growth' bringing prosperity and progress to the south; Dependency Theory, in contrast, frequently sees TNCs as' the devil incorporated'; Mercantilists note that TNCs have the potential for benefiting Third world Development, but only under certain conditions.

Modern mercantilism, thus, many ways appear to offer a sensible strategy for economic development. Yet it is not without weaknesses. To follow the path advocated by modern mercantilist, the states of the south need a fairly high political-administrative capacity; otherwise, they will not be able to undertake sophisticated state intervention and regulations of the economy.

ECONOMIC GLOBALISATION AND THEORIES OF POLITICAL ECONOMY

The dominance of liberal over mercantilist economy in recent decades forms a complex change in the world political economy- changes that together are called globalization. This term refers to the increasing importance of the world level of analysis in economics, as the scope of economic activities expands worldwide. Globalization is the spread and intensification of economic, social and cultural relations across international borders and it encompasses many aspects including expanded international trade, telecommunications, monetary coordination, MNCs, technical and scientific cooperation, cultural exchanges etc.

This phenomenon of globalization has received a great deal of attention in political economy. The three main theoretical approaches to political economy are in agreement that economic globalization is taking place. But they disagree about the actual content of the process; they also disagree about the consequences of economic globalization for states.

Many economic liberals have an optimistic view of economic globalization. One example is famous American Economist Milton Friedman who celebrates the fact that it is now possible to produce a product anywhere; using resources from anywhere, by a company located anywhere. That is because the states no longer interfere with production and consumption in the way they used to.

The globalization creates cross-border activities which states can no longer control on their own such as global economic transactions and environmental problems; and the nation state is also pressured from below; there is trend towards ever stronger identification with the local community where people live their daily lives. According to liberals, economic globalization means a qualitative shift towards a global economic system and will bring increased prosperity to individuals, families and companies. Mercantilists have not formulated a view of globalization that can rival the liberal economic analysis in scope and ambition. But there is what could be termed a mercantilist position in the globalization debate which is highly critical of the economic liberal analysis. Mercantilists remain unconvinced that a qualitative shift towards a global economic system has taken place. In other words, they do not believe in the phenomenon called globalization rather see it as a process of intensified economic interdependence between national economies. Mercantilists also reject the claims made by many economic liberals that corporations have lost their national identity in pursuit of their ambition to become truly global economic players. Instead, mercantilists argue states and their national corporations remain closely linked. Mercantilists also reject the idea that nation states are being pressured and are somehow losing out in the process of economic globalization. And lastly, they believe that the sovereign states remain the preferred form of political organization around the world. The neo-Marxist view of economic globalization defers from that of both- economic liberalism and mercantilism. Robert Cox, neo-Marxist, believes that economic globalization involves both intensified, economic interdependence and a qualitative shift towards a global economy. Cox finds that in the process of economic globalization nation states have lost substantial power over the economy, however, the continued process of globalization requires the political framework provided by nation states; in particular, it requires the 'military-territorial power of an enforcer'. Robert Cox and other neo-Marxist further stressed the uneven, hierarchical nature of economic globalization, where economic power is increasingly concentrated in leading industrialized countries including the USA, Japan and the states of Western Europe. That means the economic globalization will not benefit the impoverished mass of the Third World. In short, according to neo-Marxist, globalization is a form of capitalism and as such, it perpetuates capitalist domination and the exploitation of poor people around the world.

Thus, the debate on economic globalization is not easily settled because each of three theoretical positions outlined above can point some empirical evidence which supports their view. Economic globalization has also led to the formation of trans-national resistance movement. The growth of such movements demonstrate that economic globalization is much more than anonymous transaction across borders: it involves political struggle about the extent to which economic transfers should be put under political control and how the benefits from globalization should be distributed among countries and groups of people. This struggle also involves taking a stance in the debate between the three classical approaches to political economy.

RECENT THEORETICAL DEVELOPMENT IN POLITICAL ECONOMY

The classical theories of political economy i.e., mercantilism, liberalism and Marxism are theories in the very broad sense of the set of assumptions and values from which the field of political economy can be analysed. There are also micro-theories, with specific views of the relationship between politics and economics and the major institutions connected with politics and economics i.e., states and markets.

But over the last few decades, the theoretical views often called neo classical economy, of professional economist have dominated, not merely in the study of economic matter but also in the general field of political economy and indeed also in other areas of political and social science. So political economy has to do with the micro-theory supported by economist.

RATIONAL-CHOICE THEORY

Neo classical economists present a simple model of individuals and their basic behaviour. That model is called Rational Choice Theory. That model is relevant not merely for economics, but for every other sphere of human behaviour. As indicated, rational choice begins with individuals. It believes that whatever happens in the social world, indulging in international relation, can be explained by individual choices. This view is called 'methodological individualism'. Furthermore, individual actions are rational and self-interested. Finally, when individual acts in a rational and self-interested way, the overall result or outcome for states or systems will be the best possible. This is a basic claim of rational choice theory. Neo classical economists further gave a number of other analytical tools. Not merely their view of individual behaviour but also a number of other key concepts from economic theory such as marginal utility, optimization and equilibrium are relevant for a more general study of human affairs including international relation.

NEW INSTITUTIONAL THEORY

Methodological individualism has also been used in other ways. New institutional theory which also goes under the name of 'New Economics of organization' starts with the rational and self-interested individual action. But contrast to rational choice, institutions is not neglected. They play an independent role for outcomes and so they should, according to New Institutional theory, be made a centrepiece of analysis. Thus, New Institutionalism is the analysis of how institution affects individual behaviour and policy outcome.

But at the same time, the neo-classical views do not consider the larger socio-political setting within which individual behaviour plays out. It is exactly this larger setting which is the subject of the classical macro theories namely Mercantilism, Liberalism and Marxism. While neo-classical micro theory might yield important insights, it cannot replace the classical macro- theories.

CONCLUSION

It is clear from the analysis that the issues of wealth and poverty raised by political economy are of increasing importance in world politics. The traditional focus of international relation was on war and peace. But the danger of war between states, particularly great power war, appears to be in decline. Violent conflict, now a days, take place mainly inside states especially inside weak states. And that violence is bound up with problems of development and underdevelopment, one of the core issues in political economy. In other words, even when we look at the traditional core issues of international relation that of armed conflict between states, political economy is of increasing importance. World orders encompass rules and patterns of political economy as well as security relationships.

Further, political economy opens up several new research agendas such as 'international business', 'micro and macro economics', 'economic geography', 'international finance and banking' and 'economic history'. Such research paths are a good reminder that international relation involves a host of other issues studied by additional sub-disciplines of the vast area of social science. To sum up, it can be said about the various theories of political economy that though there is a difference among them but no single theory can stand alone rather it needs to be confined with insights from others. Only in that way one can expect to develop a comprehensive and well-founded subject of political economy.

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