
UNIT 5 POLITICAL ECONOMY¹

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5.0 OBJECTIVES

After going through this unit you will be able to:

- Describe the two terms politics and economics and the relationship between the two;
- Discuss the history of political economy;
- Outline the general conceptions of political economy;
- Explain the elements of political economy; and
- Describe the nature of urban political economy.

5.1 INTRODUCTION

Political economy in general means distribution of power. It highlights the role of capital in policy-making as well as politics. In urban areas, its main focus is on the relationship between the local governments and the capital, where in capital includes financial estate as well as real estate. The relationship between local government and capital is not established in a certain local space; instead its establishment is based on the functioning of cities, states and nations as well as the national and international capital. In this unit, we will discuss the basic concept of political economy and also political economy in urban spaces. Through a detailed historical account of political economy, the unit provides an overview of how political economy has been understood starting from Adam Smith's 17th century understanding to Karl Marx's 19th Century. The unit also offers a conceptual framework of political economy through identifying the foundational principles of it to understand how political economy can be used for the analysis of economic system. It discusses four important elements of political economy such as production, distribution, exchange and consumption and then shifts its focus to understanding political economy in the urban spaces through using two important approaches – Neo-Marxian approach and Neo-Weberian approach.

5.2 UNDERSTANDING THE TERMS POLITICS AND ECONOMY

Now before we start discussing the broader concept of political economy, let us try to understand the key terms associated with it such as politics and economy. Two conceptions of politics exist in literature and these two conceptions contradict each other which makes politics difficult to define. The two conceptions are the broad and narrow conceptions. The narrow conceptualization of the term implies that only politicians engage in politics. The supporters of this conceptualization of the term argue that only politicians and the machinery of government are closely associated with politics. In this sense, politics is considered as action performed by the state. However there are many other people who fall outside of the boundaries of politics as they do not take part in decision-making. This constitutes the broader conception of the term politics according to which politics occurs both within the institutional boundaries of the State as well as outside of it. Those who support this claim believe that politics cannot be confined to the government only but it exists even outside of it. Given these two conceptions of the term, there has been a disagreement among political theorists as to which conceptualization fits well in the definition of the term politics.

There has been diverse understanding of the term politics depending upon the context in which the term is used. In fact, its definition keeps changing from time to time. So there are a wide range of meanings attached to the term. And therefore, it becomes difficult to mark a divide between what can be considered as political and what cannot. But as such, politics cannot be considered as merely an act of governance but it is generally understood as an instrument of achieving the goals of the society.

On the other hand, economy can be understood as a system of institutions that plays a vital role in the production of commodities and their distribution in a given society. It is through economy that one determines the ways in which resources are distributed in a society. Economy also helps in determining the value of the goods and services and helps to identify and sort out the goods which can be traded and exchanged against other important goods not produced within the nation state. The way in which society organizes its economic system is basically a political issue. Political and legal institutions govern the way in which economy can be strengthened and resources distributed.

There are basically two categories of any economic system. One is the market system in which people own and control the means of production rather than state. In this system, what governs economy is the supply and demand of production in the sense that low supply during high demand increases the price and high supply during low demands reduces the prices. The other is the command system in which there is the centralization of economic system. This means that the decision making in economic system lies with the state. In command system, the state has a complete control over the means of production. Now since the two terms of politics and economy have been explained, in the next section, you will understand the history of political economy.

5.3 HISTORICAL ACCOUNT OF POLITICAL ECONOMY

Political economy has since the past been understood differently by different social scientists. For example, Adam Smith has defined political economy as “the science of managing national resources in order to generate wealth” (Smith, 1776[1981]). Similarly for Marx, political economy means how the owners of the means of production controlled the historical processes (Marx, 1859 [1993]). During the 20th century, political economy was understood as an area of study comprising of the inter-relationship between economics and politics; it was also understood as a methodological approach which was divided into economic approach and sociological approach. Economic approach emphasized upon the individual rationality while as in sociological approach, the level of analysis was the institution.

Basically political economy entails the study of the linkages between politics and economy in terms of how politics influences economy. Political economy emerged as an independent discipline during the 17th century at a time when there was a transformation of society from feudalism to capitalism. There were many economic theorists associated with it such as Adam Smith and David Ricardo, who are known as the founders of political economy. They believed that political economy is the distribution of goods and economy in a nation state. Such an understanding of political economy was later changed due to the realization that primary source of economy was the production and that it is the production of goods and other commodities that can help in the development of society.

This classical understanding of political economy was not accepted by Marxists. They instead defined it in terms of the relation of production and the laws of their development. Both Karl Marx and Frederick Engels were witness to the horrific poverty among the workers and the conditions in which they lived. The prevalent conflict among two classes under capitalism and the production of goods for minority group of capitalists turned them towards dialectical and historical materialism. Through these concepts, they made attempts to explain the inequalities among two groups in the society.

Karl Marx (1859[1993]) argued that capitalist society is not permanent. The class system and the struggle between classes in capitalist society will force it to transform into a new type of society which will be free from struggle between the classes. And there will be no exploitation and domination of one class by the other. Gradually, political economy emerged as a separate branch of political science and economics and the question that how politics influences economy has been re-visited because the economic outcomes of a nation are determined by the political factors. In other words, the field of economics considered political forces not only as the influential factors of economic outcomes but as the determining factors also.

5.4 THE CONCEPT OF POLITICAL ECONOMY

Generally, political economy is a particular way to understand the social and political phenomena; and in this phenomenon, economics and politics are not seen as separate areas. The foundation of political economy involves: (a) the relationship between economics and politics and (b) the belief that this relationship can be understood in numerous ways. So while it is important to point out that the concept of political economy indicates the relationship between them, but there is no single meaning that can be attached to political economy.

Political economy gives us a framework for analysing economy which is broader than conventional economics, in which market lies at the heart of it. Market nearly solves all the problems that the economists notice. These problems are actually the economic processes for example, the method of *production* and also the extent to which goods can be produced; then there are problems of *exchange* of goods against money which means the market value of the goods produced; there is also the problem of *distribution* through which claims can be made on the national economy and also the *rate and pattern of growth* of national income respectively.

Activity 1

Interview at least five people in your neighbourhood belonging to different walks of life i.e. classes, occupation etc. Ask them what they think about politics and economics in India- Whether it is separate or linked.

Note down two major points mentioned by each person and write an essay of one page on “Political Economy and its Significance in India”. Share your essay with others at yours Study Centre.

Political economy is also concerned with these four problems but it uses a different approach which is different in three distinct ways. Firstly, individuals who constitute social classes in a society act in economic system in many ways. They can be the owners of capital; they can be workers, landlords, serfs and so on. Among these classes, there is the distribution of power which influences state policies. And it is this aspect of social classes in the economic system which is important to political economists. Secondly, as we have been discussing, markets constitute an important aspect of economic institutions. There are certain historical, political and social forces which political economists believe are fundamental to the markets. These forces help in determining the nature or markets as well as how markets function. Thirdly, state is an essential component of economy which acts as an intermediary in the distribution of interests among social classes. There is however conflict of interests among various classes and this conflict is also resolved by the state in many ways.

The main focus of political economy can thus be seen on the interaction between the state and the market. For the sake of clarity, state refers to political institutions of the modern nation-state while as market refers to the economic institutions governed and controlled by self-interests of people and conditioned through balancing the demand and supply.

Check Your Progress 1

1) Define the terms politics and economy?

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2) Name two categories of economic system?

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3) What do you understand by political economy?

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4) Political economy as a methodological approach is divided into two approaches. Name them.

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5) Political economy involves the relationship between
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5.5 ELEMENTS OF POLITICAL ECONOMY

There are four important elements of political economy. The first is production involving two aspects of labour and capital. The second is distribution involving rent, wages and profit. Third is the exchange which involves the exchange of commodities for benefits and fourth is the consumption which involves both productive and unproductive consumption.

5.5.1 Production

The process of production involves human labour and capital.

5.5.1.1 Labour

In any society, human labour is used jointly with the capital. Labour is considered as a distinction portion of the entire process of production and important for labourer’s subsistence also. Any kind of activity by the labourer involves two things – the consumption and the operation. Labourer cannot be detached from his labour. But there has to be improvements in terms of the labourer’s productive powers. These improvements can be seen in the form of parts of capital and they arise from the division or distribution of labour. This aspect of labour distribution has been pointed out clearly by Adam Smith (1776[1981]) in his book “Inquiry into the Nature and Causes of the Wealth of Nations” in which he argued that the effects of the division of labour can be verified through an increase in the productive powers. In simple terms, if a labourer engages in one aspect of the productive process and another in the second aspect, they are likely to acquire greater produce than in the opposite case.

2.5.1.2 Capital

Capital is ultimately derived from labour, but the process of production starts with hands. Thus the first part of capital was the end result of pure labour. Capital, in general, means anything which is produced by the labourer employed. Thus, capital is apparently the result of the labourer’s labour which finally becomes the saving. If there is no saving, there can be no capital; and if all the production is immediately consumed, there will remain no part of capital and there will be no further production. This means that there has to be something which must be produced and not consumed

immediately. The part which is not immediately consumed becomes the saving and this saving is used for further production.

Thus both the labour and the capital are jointly result in the production of something and the entire production may either be owned by one party or a part of it may be owned by another party. This means that when the capitalist owns the produce and the producer (that is, the labour of the labourers), the capitalist becomes the owner of both of these. A common example of this sort is of an individual who cultivates his land by using his own labour instead of hiring the labourers ultimately becomes the owner of both the capital and the labour. But if the same individual cultivates the land by employing labourers, then he becomes the owner of the capital only.

This mode of production process gives rise to the two classes that is capitalists involving those who supply the resources to the labourers and the other class is of working men who sell their labour in the process of production.

5.5.2 Distribution

So far we have understood the first element of political economy, that is, production in which two classes of people are involved – the capitalists and the labourers. Both these classes receive the share of what is produced, either in the form of the produce or any other benefit derived from it. The entire process of distribution involves the rent, the wages and the profit.

5.5.2.1 Rent

Land as such is divided into fertile and infertile land. Fertile land is the one which can yield more produce while as infertile is the barren land, which is sandy and rocky. The former can yield double the produce in a year while as the latter can at times yield nothing. So there are different kinds of land depending upon fertility. The fertile land yields rent while as the infertile land yields no rent. But the infertile land will yield rent once it has been made fertile. Or even if there is something least derived from the barren land, it can yield a little proportion of rent also.

5.5.2.2 Wages

Wages is the second sub-element in the distribution process. So what proportion of produce is distributed between the labourers and the capitalists? In fact, labourers share is determined through the wages that they get for the production process and the amount of wages being paid to the labourers determines their share of the production. Apparently, the proportion of produce between the capitalists and the labourers is also determined through the bargain system between them. All bargaining is done freely except that it is determined through competition; however, the terms of bargaining are sometimes modified depending upon the degree of demand and supply. However, if the manpower is increased, there is a decrease in the wages but there is simultaneously an increase in the capital also.

Generally however, if capital naturally increases faster than the total population, it would result in the prosperous condition of the population. But

if population increases more than that of the capital, the condition of the people cannot be preserved and also the wages will see a fall. This fall in the wages will be the causal factor of poverty among the population. This poverty will gradually and consequently result in an increase in the mortality rate. One thing that needs to be understood here is the fact that capital has a less tendency than population to increase and therefore the situation of people is likely to be miserable.

5.5.2.3 Profit

Profit is whatever proportion of produce remains after the rent and wages are distributed. The profits gained out of the total produce is determined by what the owners receive out of the joint production of labour and the resources. So the amount of profit depends upon the share given out in the form of wages. And it is generally said that an increase in the wages will result in a decrease in the profit and an increase in the profit will result in a decrease in the wages. In this sense then, profits depend upon wages in terms of profit seeing a fall when wages rise and rise when wages fall. However there is likely that both the wages and the profit may see a fall or rise at the same time also.

So as we have understood now, whatever is produced through the use of labour and investment in terms of capital, is divided into three parts. Firstly the rent which is given for the land; secondly the wages which are paid to the labourers for their labour; and third is the profit which the capitalists get after the distribution of produce.

5.5.3 Exchange

The system of exchange depends upon the needs and demands of the people. If two groups of people have produced more of the commodities than what is required by them for their consumption, they would exchange the portion of it for the commodities which they do not produce. For instance, say one person produced rice and the other produces wheat. In order for the accommodation of both, they can exchange their produce, say rice for wheat. So the process of exchange involves two parties – those who supply commonly called as carriers and those who receive which are called as merchants. So there are two ways through which commodities can be carried, that is, land and water. Carriage by land involves the use of carts, or other means of transportation by land while as carriage by water involves ships and other people who navigate these ships. The manpower used in these carriage systems are also paid maintenance cost incurred during the process of carriage.

However what determines the quantity of goods to be exchanged? Generally, the quantity for exchange is determined through the demand and supply. For example, if there is more demand for rice than wheat, then the same proportion of wheat will be exchanged against rice. However if the demand for rice increases over a period of time, it will not increase the quantity of wheat in the exchange process. This is the law of exchange and one of the important aspects of investigation in political economy.

5.5.4 Consumption

Among all the four elements of political economy, the first three which we have so far discussed (that is production, distribution and exchange) are a means to the fourth element which is an end and that is consumption. In order to understand consumption, it can be categorised into two forms – the productive consumption and the unproductive consumption. Productive consumption refers to the consumption of resources in the production process and there are three such resources used in the productive consumption. The first is the wages of the labourer which enables him to consume the goods that the labourer produces. The second resource used for productive consumption is the machinery which includes the means of carriage also. The third resource used in the process is the raw materials which are used in the production process. On the other hand, the unproductive consumption involves all the consumption which does not produce revenue or through which income cannot be generated. For example all the goods produced by using unproductive means of consumption can result in an end to the production process that is unproductive consumption. And in the productive consumption, the resources are not lost but whatever involves unproductive consumption is lost because people consume it. Also all the resources of the productive consumption become the capital unlike those things which are included in the unproductive consumption.

5.6 URBAN POLITICAL ECONOMY

As we now know that political economy lays much emphasis upon the role of capital in politics as well as policy making. However, urban political economy exclusively focuses on the relationship between the local politics such as urban governments and capital such as finance and real estate. This relationship exists at both the local level as well as at the global level. This relationship does not exist in itself at the local level; in fact this relationship is impacted by how cities, states, and nations behave and also by the actions of capital both national and international.

Urban political economy is actually a concept that engages with two important questions in urban sociology. One is related to the question of factors that cause urbanization and other is related to the city in terms of who governs it? An economic explanation to these two questions which are apparently distinct and flexible in terms of being a critical framework can be mentioned. Through this economic explanation, a variety of urban occurrences can be investigated which confirms the status of urban political economy as being dominant in urban sociology. Urban political economy asserts that the economy and the political structures within a city involve a vigorous and an opposing mechanism for the appropriation of the wealth.

Activity 2

Talk to two people; one working in the organized sector of the economy and one in the unorganised sector of the economy and ask them about how did Corona Virus; Covid 19 affect them during the complete lockdown in Indian

cities where they work. Write a note of a page on this impact and analyse the differences. Share it with others at your Study Centers.

Urban political economy is an analysis of the urban ecology; it offers an explanation of the growth of cities and other urban regions besides analysing their structures. With its emphasis on the idea of space and the competition therein for resources among individuals or groups, the hierarchies in the political, the economic actors, the rules are seen as the expressions of vital driving forces. The result is that the institutions such as urban governments, business elites, urban policy makers and other institutions are not considered as the real urban structures. There has been a conflict among these structures due to their denial of the power.

As a result of this, urban political economists started emphasizing upon and explaining urban relations through investigating the role of social power and economic structures.

Two important approaches can be mentioned here to understand the urban political-economic relations.

5.6.1 The Neo-Marxian Approach

Urban political economy revises Marxian theoretical legacy in the urban settings. This is one of the areas that Karl Marx did not focus extensively in his writings. Neo-Marxists made it clear that the evolution of city can be traced from its historical relations of production. In order to progress and advance in terms of their class interests by avoiding rigid infrastructures in the urban areas, industrial capitalists supported the bordering of urban areas and the creation of sub-urban settlements. They also advanced their political as well as cultural interests through policies in order to promote ownership of homes and the development of sub-urban areas. The Neo-Marxists' claims that appeared during 1970s and 1980s along with other intellectual ideas do not only convey social relations in urban areas but they also act as the driving forces of these social relations.

5.6.2 Neo-Weberian Approach

While Neo-Marxists concerned themselves with the structural aspects of capitalists which became the focus area for urban political economy, Weber's offered a conceptual clarity of urban political economy which serves as a basis for understanding social power. So Marx in fact paid little attention towards politics' autonomy from the material relations of production. Consequently, structural Marxists failed to understand urban political power; instead their only focus was on structures and the historical imaginations about economy. So the question which was raised during 1950s and 1960s within the field of political science that 'who governs the city' was reintroduced. Earlier in debates around the issue of governance of city, Floyd Hunter (1953) as well as those who advocated the elitist perspective argued that private urban elites continuously promoted their interests and succeeded. However Robert Dahl (1961) disagreed with the claims made by Floyd Hunter and others by claiming that private interest groups cannot succeed

consistently; they cannot dominate the politics in the urban regions consistently. Such a debate remained inconclusive until 1970s when urban political economists explored how cities produce wealth for capitalists.

As a result, urban political economists adopted the Neo-Weberian approach to identify the social production of urban space so as to control the interests and also encourage urban elites in their political dominance. This suggests that the governance in urban areas is not the handiwork of urban governments only but the governance of urban spaces also includes decision-making by private elites. 'Urban Machine Growth' theory which was propounded by Harvey Molotch (1976) did not deal with the ways in which urban elites play a role in the politics or the conditions for collaboration among them and also if they succeeded in their attempt for the growth of urban spaces and in achieving political supremacy. After 1980s, urban political economy was very much influenced by the urban regime theory (Stone, 1989). Urban regimes comprise many varieties and each urban regime has its own agenda which its members pursue. Some urban regimes are very progressive while as others uphold their existing political situations (Stone, 1989). However, the one among all the political regimes is the development regime which is promoted by the pro-growth political elites. And those involved in the development regime share certain political and business interests that subsequently instigate cooperation and safeguard them from the disputes in their coalition which is between the public and the private.

Check Your Progress 2

1) What do you understand by Urban Political economy?

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2) There are four important elements of political economy. Name them.

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3) The process of production involves and

4) How can the quantity of goods be determined for exchange process?

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5) Production, distribution, exchange and consumption are all a means to an end. True or False

5.7 LET US SUM UP

In this unit, we discussed the general notions of politics and economics wherein we also discussed how these terms have been understood differently. We also comprehended the two economic systems that is market system and command system. We also discussed how the political economy has been understood since the past starting with Adam Smith and thus we have traced the history of political economy. Then we discussed the usage of the term through discussing its two foundational principles. We also discussed the elements of political economy such as production, distribution, exchange and consumption and illustrated them exclusively including their sub-elements. The later part of the unit marks a shift from the general notions of political economy to the idea of urban political economy in which we have discussed two important approaches for the understanding of urban political economy such as the Neo-Marxian approach and Neo-Weberian approach. The unit is vividly drafted for the enrichment of knowledge of the students about the concept of political economy in general and urban political economy in particular.

5.8 REFERENCES

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5.9 SPECIMEN ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress 1

- 1) Politics refers to an instrument of governance used for achieving the goals of the society while as economics refers to a system of institutions which play a vital role for the production and distribution of commodities in a society.
- 2) Market System and Command System
- 3) Political economy refers to the interplay between the state and the economics and it is a particular way to understand the social and political phenomena.
- 4) Economic Approach and Sociological Approach
- 5) Politics or state and economy.

Check Your Progress 2

- 1) Urban political economy refers to the role of capital in politics and it focuses on the relationship between local politics and capital.
- 2) Production, Distribution, Exchange and Consumption.
- 3) Labour and Capital
- 4) Though demand and supply
- 5) False