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# **1.0 Introduction**

Political economy is as old as the study of social science, as it was at certain time seen as the same thing as the study of the subject economics. It included the subject of the government, particularly the State, economic history and philosophical issues that concerns human needs. However, modern social sciences has divided political economy into several subjects. We have the obvious subjects of Economics, which is the study of resource allocation through prices and determining of aggregate output based on the theory of individual rational choices, within an overly mathematical and formalistic framework. It considers the study of majorly the capitalist market, as against other popular alternatives such as socialism, communism and much more. Political economy in this vein, particularly in the form of public choice theory following from Olsen, Hayek, Buchanan and even Elster, is the study of how states and the political process distort the efficiency of a self-regulating market economy.

Classical political economist Adam Smith, Robert Malthus, David Ricardo and John Stuart Mill, explained political economy as the study of the distribution and accumulation of the economic surplus within market economies, the institutional characteristics of exchange relations, the determination of wages and employment, and the division of labour and technical conditions of production. These definitions still remain as central questions for modern political economy. For instance, Karl Marx engaged in a critique of political economy, in an effort to document the conceptual categories of political economy and locate the specificity of capitalist social relations. For him, the critique of political economy was not just the analysis of capitalist accumulation and distribution, but also towards the transformation of capitalism and the establishment of new egalitarian social relations of production, which was a subfield of political economy, known as the ‘economics of socialism’.

 It is important to note the difference being the study of the social forms of capitalist social relations in terms of their crisis, reproduction and transformation, which remains at the center of Marxian political economy. All these approaches and usages to political economy are still relevant today. In modern times, political economy has become used as a more general term to include majorly economists and political scientists. It also covers those doing critical social research on liberal democracy, markets and capitalism.

Invariably, there is great relationship between politics and economics. The voters, politicians, lobbying and political parties that are elements of politics is as much related to the exchange rate, consumers, the micro policies of economics. These combination gives us the political economy analysis, that this work is all about.

# **2.0 Body of Assignment**

## **2.1 Concept of Politics**

The term **“Politics”** is taken from the Greek word **“politika”**. This term originated from the book of Aristotle on governing and governments as modeled his view “affairs of the city.” These are the evolving terms of Politics: (1) **“Polettiques”** was the Latinized term provided by the English in the mid-15 century; and (2) **“Politique”** came from the Middle French with the Latin term **“Puliticus”** to the Greek term **“Politikos.”** The meaning of the root term relates to the citizens ,civic , civil) and belonging to the state. Generally, the common definition of **POLITICS** is the ability to persuade and influence in the sovereign electorate to provide political power and authority in the governmental affairs of the state. These are the other definitions to conceptualize the term **POLITICS:**

1.**It is the science of governance in the control of the external and internal affairs of the state.**

Arendt (2005) states that the management of the political, economic, social and administrative affairs in the public sector has been the concept of governance of the state. In the basis of the definition of politics, the control the various state affairs has to be the sovereign power of the government. The external affairs involve the political activities such as diplomatic relations with other state in providing the public affairs support on international trade, bilateral and multi-lateral relations affecting the political, social, educational and economic activities of the state.

The art of governance provides internal affairs with the administrative and sovereign rights to pursue political agenda that would best suit the interest of the political party and development thrusts for the generation of common welfare to the society. This validates the electoral promises of public officials on the ability to influence and persuade the electorate to pursue the political platforms as the basis of political performance gauge for those who were elected as government officials of the state.

**2. It is the management of the political parties to deal with the peoples’ interest in government through manipulation and influence to obtain, power and control of the society.**

Connolly (1993) is of the opinion that the political parties as the main ingredient of political and social development to deal with the interest of the society have to manage the politics of manipulation and influence of the society. It must provide the manipulative way to show efficiency, effectiveness and economy in the management of governmental affairs. The idea of politics has its full meaning as to the use of manipulation and influence to deceive people that the government officials handled well the political affairs of the state. The ethical and moral principles of politics have been the main concern and issues as to the advocacy of general welfare of the society. It is usually focus on the political power play to the varied political parties with motive to administer and manage the governmental affairs of the state. The political dynamics of the government administration is always there in discussing the development perspective of the society.

At the end, politics is about how to gain political powers administering the governmental affairs through party affiliation or individual candidate with his or her team. This is the usual issue and concern of politics as the self-interest for collective recognition and respect; self-actualization and social stratification may have ethical and moral impact in the society. The idea of political deception is always there once the political influence and persuasion appears in winning the confidence of the sovereign electorate.

**3. It is the political administration and management of the governmental affairs based on the development agenda of the party affiliation of public officials.**

In politics, the party affiliation and political agenda provide the general political strategy to enumerate the development agenda that best suited to job generation, social equity, the advocacy of human freedom, justice, dignity and liberty for common and general welfare to the society. This is the political basis to administer and manage the governmental affairs of the state. The fiscal management and administration of government evolves on the critical areas of revenue generation (tax collection) and budgetary measures (expenditures of social services) including the borrowing for the development projects.

The party affiliations have been the main political supporters to administer and manage the affairs of government. Ceteris paribus, politics has to consider political party as this group provides the political influence and control to pursue the government directions of the state. With the concept of individual candidacy and its practice, it is also important to note that there are also individuals who control the affairs of a state without the machinery of a political party.

**The Historical Approach in the Study of Politics**

The evolution and origin of politics defines by the formal political description as to the historic development of the state and government. The interesting part in the study of government and state is the political rulers’ initiative to persuade and influence the subjects (people) as to the doctrine of the political power and authority to rule the society. It is an approach in politics to present the political thought in the past as the main governmental reference to rule the state. The ability to persuade and influence to secure the political power and authority vested on the following historical grounds:

**a) The royal blood and dynastic rule has the political capability to rule the state as related to the social stratification for the nobility class has the solemn political rights to rule the society.**

In modern time, the noble blood means the parents and grandparents had been the members of the royal family, so that royalty flows in his or blood. The concept of politics along this line provides the theoretical framework to impose the noble rights of the next generation to rule the state. There are political cases in the state and government to honor the noble blood to represent the country in case there is a vacuum of the political power in the society. This elitist principle of governance based on royal or dynastic blood provides the political stability of the state when extreme case of political vacuum is present within certain group of society.

**b) The divine rights of the kings, queens and emperors to gain absolute political powers as to influence and persuade his or her people to obey the rulers.**

In politics, the divine rights of kings and emperors are no longer politically advocated as to influence and persuade the people to obey them. This was historical reason in the past that they revolted against the political rulers as a consequence on the suppression of the human freedom, extravagance by the rulers, and the life of the poor people became miserable. (Heywood; 2013).

**c) The historical lesson of political rulers has the right to overthrow them when they corrupted the political power given to them based on the social contract theory.**

Lukes (1974) states that the age of enlightenment in Europe has been a good example as to the application of the historical approach in politics in relation to the concern of graft and corruption, abuse of political powers, exploitation of the masses, and suppression of collective constitutional rights of the people. It simply states by the political thought of Rousseau, Locke, and Hobbes had agreed the principle of the social contract as to its moral and ethical obligation for the ruler to govern the state with utmost respect on the application of the democratic principles. In politics, when there is political tyranny then the subject have the social covenant to be forced to be free and right to resist the authority. The modern times, where able to use peaceful revolution and peoples’ revolution to apply this historical approach in politics. In recent times as well, there are cases of recall of a representative by a certain number of voters. There is also the abuse of this process, when you see military taking over the realms of power, claiming that those that had the power had abused it and the citizens where looking for a way of change. Though this is not legitimate, but it is a common practice, even where we see the military changing a democratically elected government.

**d) The political development of historical thought on the social equality, human freedom and self- sustenance as to the political ideologies of democracy and communism.**

**-** This is also related to the economic system as to the dichotomy of the capitalistic structure and socialistic structure of economy.

Hoenig (1993) postulates that in politics, the ability to influence and persuade the sovereign electorate has to use the historical root on the political development and human freedom in order to hold the power and authority in the state. The development thrusts on the political agenda must always reflect life-sustenance, esteem, dignity and freedom. However, the historical consideration as to the political and economic development of the state reflects the kind of government in a certain group of society. For example, the communistic idealism of the China, former USSR, Cuba and South Korea. The capitalistic and democratic states such as countries in America and Europe.

The historical approach is also called traditional approach as political scientist review the chronology of events as the inter-play of political dynamics will come in to understand the insight in politics.

**C. The Behaviorist Approach in the Study of Politics**

In 1960, the political scientists had to study the shortcomings in the historical/traditional approach in the study of politics to correct and understand the misconceptions to apply only the historical perspective without considering the individual and collective behavior in the development of political institutions.

**These are the factors considered towards the application of behaviourist approach in politics:**

The application of behaviorist approach uses the evidence-based investigation of social facts and phenomena to consider the political actions and activities of government officials. The behaviorist perspective about this psychological analysis focuses more on the ability to persuade and influence the sovereign electorate to sustain the political performance as the basis on the renewal of elective term in government positions.

**a) This approach concerns more on the practical and scientific study of political behaviors in the society.**

Bueno (2013) stated that the scientific investigation of social facts has been the best way to study the development problems and strategic direction of the application of politics. The quantitative and qualitative methods of social research provides political information and data in the governmental administration and management of the state. The researchable areas in politics based on behaviorist approach are the following:

**1. The voters’ political preference.** This looks at the voters behaviour and how they respond to the candidates that the political parties put up for elective positions. This shows the acceptability or otherwise of a particular political platform.

**2. The public officials’ performance on the development programs.** The performance of public officials is evaluate against the actual development projects implemented. This assessment forms a basis for possible re-election or not of the public official.

**3.** ***The governmental revenue and social services programs***. The looks at the how revenue is generated from various sources and how this is also utilised based on approval from the legislators, after which the citizens also looks at the way the is utilised for the social services to the public.

**4. The research survey as to the popularity rating of government officials.** How popular is a particular administration with regards to fulfilling their campaign promises, development of the society, dealing with issues of equity, social justice and citizens welfare and dealing with crime, criminality and corruption.

**5. The political information about corruption cases, bribery, and extortion.** The media publication and social impact assessment of government activities with regards their political parties. Are there favouritisms and elements of political corruption in the administration of the state and its resources, as it concerns their party men and women.

**6.The voters’ index of satisfaction of government officials.** This the political monitoring by the Media and Non Government Organisations and how satisfied they are, as demonstrated in their rating of these government officials.

**7. The traditional and alternative politicians.** Comparing and analysis the performance in administering the social and economic services of the government by the traditional and alternative politicians.

**8. The political activism and pressure groups.** Political reforms on issues of social equality and equity, human freedom and the exploitation of the masses, as is being pursued by trade unions, networks, coalitions, activists and other pressure groups.

**9. The media participation in politics.** The role of media as the fourth tier of government and how they expose the true image of politics and politicians.

**10.The assessment on the behavioral role of government officials in the implementation of social and economic services programs.** The behavioral and social analysis in the political perspective of influence and persuasion as to the real outcome of social economic services.

**b) The application of the social phenomenon to understand better the political experience relative to the development of the governmental systems, structure and processes.**

The social phenomenon discusses the political activities of government officials to address the major social problems in the society. The social concerns provide the better understanding as how to address the problem of the urban poor, poverty, high cost of living, crimes, drug addiction, and prostitution. It also addresses the ethical and moral issues about the political corruption and patronage politics in the society and the Gini coefficient that looks at the gap between the have and have not (the rich and the poor), which is where equity comes to play.

1. The social problems on governance to the urban poor as to the issues and concerns about prostitution, crimes, drugs, and other related consequences of underdevelopment.
2. The ethical and moral issues on political bribery, extortion and corruption in the society.
3. The political exploitation of the masses through bribery as consequence of electoral fraud in response to cultural reciprocity.
4. The patronage politics and culture-based politics of the underserved and depressed communities.
5. The political phenomenon in politics relating to patronage politics, culture-based power control, PR media initiative on the politics of corruption.

**c) The formulation of hypothesis and generalization of facts on observable behavior of the political interaction of the society. The observable political and social facts in the alternative form of hypothesis:**

**1. The influence of social stratification of the elite class in the control of power and influence in the government.** The qualitative research pertaining the participation of the elite class in politics as they have enough money to support during election time, hoping to get something in return. The political influence and power controlled in their term as elective officials in government. This observable phenomenon that the wealthy and elite class controlled all the political influence and power in government.

**2. The patronage politics as the main tool of political power play for the exploitation of the poor.** The social reciprocity mechanism that the poor has been exploited by the politicians by way of bribery, giving favours, and providing economic support that may influence them to support during election period, including the issue of vote buying during election. The sovereign electorate particularly the poor has able to surrender their sovereign rights to elect politicians in order to protect their political, social, economic and personal interest for common good in the society (Atkinson; 2013).

**3. The entertainment industry and media as a primary tool to influence the political perception of the voters.** The media and entertainment industry has been the main political tool by PR companies for the politicians to become very popular to the people so that they will be elected again for public office. Although the media influence can also be negative, as they have political impact as exposing the bad image of the politicians, which could then have the tendency not to be elected to the office. Likewise, the media very keen about the political issues of graft and corruption, extortion and bribery, illegal gambling and prostitution. The politicians remain adamant to these problems as they are secretly participating to get more wealth and sustain the needs during election time particularly in the less developed countries in Asia and Africa. In some cases the media is seen as a tool of control by the wealthy political elite.

**4. The relationship of the low level of income on the socio-demographic profile, affects the voters’ perception as to the performance of politicians in bribery, extortion and party affiliation.** The state of being poor has the relationship as to the perception and opinion in supporting the traditional politicians. The main concern of the poor is to get additional income in any political forms as the basic needs necessitates them to perform electoral fraud such as receiving gifts, vote selling and temporary employment, bribery and extortion in support of political candidates, and other economic means to ensure for their everyday survival in the society (Hague; 2107)

## **2.2 Concept of Economy**

The purpose of every economy is to satisfy human wants by using scarce or limited resources available and known to a society. These wants can be satisfied by production and consumption of goods and services. For production, the factors of production (including land, capital, labor, raw materials) are engaged in some economic activities. These economic activities bring income to the economic agents that can either be consumed or saved and invested (Income = Consumption + Savings or Income = Consumption + Investment). On account of these gainful economic activities and accumulated earnings, some countries grow fast while others cannot attain such high growth rate, thus we have the developed countries, developing countries and underdeveloped countries. We can look at economies based on ownership of resources. The resources available may be in private ownership or the collective ownership. Thus, there are different ways to look at the economy and its level of development.

An economy is a man-made organization for the satisfaction of human wants. According to A.J. Brown, “An economy is a system by which people get living”. The way man attempts to get a living, differs in major respects from time to time and from place to place. Considering time, in primitive era, to get a living, was simple, as trade by barter was in use and there were lots of unacquired resources that people could just go collect or through war/force overcome an owner of such resource to get it. However, with growth of civilization it has become much more complex, where resources are procured through trade, in some cases they are stolen (like technology). Here it is important to note that the way person earns his/her living must be legal and fair. Unfair and illegal means such as robbery, smuggling may earn income for oneself but should not be taken into consideration as gainful economic activity or a system of ‘get a living’. It will therefore be appropriate to call that economy is a framework where all economic activities are carried out. Some of the salient features of an economy are as follows:

1. Economic institutions are what we make it - man made

2. Economic institutions can be created, destroyed, replaced or changed. For example the capitalism was replaced by communism in 1917 in Soviet Union and the same Communism was destroyed in 1989 through economic reforms by former Soviet Union. In another case, After India independence in 1947, there were series of economic and social reforms, which abolished Zamindari system (The system recognised the zamindars as landowners who then let out their lands to tenant farmers in return of a share of the produce) and introduced many land reform.

**TYPES OF ECONOMIES**

 As you know that economy is a man-made organization, which is created, destroyed or changed as per the requirement of the society. We can differentiate in various types of economic systems on the basis of following criteria.

1. On the Basis of Ownership and Control over Means of Production or Resources

Resources or means of production remain either in private ownership with full individual freedom to use them for the profit motive or they can be in collective ownership (government control) and can be used for the collective welfare of the society as a whole. Based on the criterion of degree of individual freedom and profit motive, economies are classified as:

(A) Capitalist or free enterprise economy

(B) Socialist or centrally planned economy

(C) Mixed economy

**Characteristics of these main Economies**

1. Capitalist Economy:

The capitalist or free enterprise economy is the oldest form of economy. Earlier economists practiced and talked about ‘laissez fair’ policy, which meant leaving freely. The economist advocated for minimum government interference in economic activities. These charavcteristics distinguished the capitalist economy;

(i) Private property - all individuals have the right to own property in a capitalism system. An individual can acquire property and use it for the benefit of his own family friends or even for the general public. There is no restriction on the ownership of these properties and to earn profit and accumulate wealth. At the demise of the individual, such wealth is transferred to his or her next of kin.

(ii) Freedom of enterprise - the government does not coordinate production decisions of the citizens in a capitalist economy. Individuals are free to choose any occupation. Freedom of enterprise implies that business firms are free to acquire resources and use them in the production of any good or services. There is freedom of entry and exit and in most cases, the profit elements, risk factor and technical requirements determines the ease of entry and exit of individuals.

(B) Socialist Economy

In the socialist or centrally planned and controlled economies, all the productive resources are owned and controlled by the government in the overall interest of the society. A central planning authority takes the decisions on behalf of all the citizens and everyone must abide by it.

The socialist economy has the following main characteristics.

1. Collective Ownership of means of Production - means of production are owned by the government on behalf of the people in a Socialist economy. The institution of private property is not allowed and even banned and no individual is allowed to own any production unit and accumulate wealth and transfer it to their next of kin. However, people may own some durable consumer goods for their personal use
2. Social Welfare Objective - the decisions are taken by the government at macro level with the objective of maximization of social welfare in mind rather than consideration of individual profit. The forces of demand and supply do not play any significant role. Careful decisions are taken with the welfare objectives in mind.

(C) Mixed Economy

A mixed economy is a combination of the best features of capitalism and socialism. This means that mixed economy has some elements of both capitalist economy as well as socialist economy. The public and private sectors co-exist in mixed economies. The main characteristics of a mixed economy are as follows:

1. Co-existence of public and private sectors. The private sector consists of production units that are owned privately and work based on profit motive. The public sector consists of production units owned by the government and works based on social welfare or general citizens welfare. In most cases, the areas of economic activities of each sector are generally demarcated. Government uses its various policies e.g. taxation policy, licensing policy, price policy, fiscal policy and monetary policy to control and regulate the private sector.
2. Individual Freedom - Individuals take up economic activities to maximize their personal income. They are free to choose any occupation and consume as per their choice. But producers are not given the freedom to exploit consumers and labourers. The welfare of the people is considered by the government in putting some restrictions. For instance, government may put restrictions on the production and consumption of harmful goods. But within rules, regulations and restrictions imposed by the government, for the welfare of the society the private sector enjoys complete freedom.

**Types of Economics on the Basis of Level of Development**

On the basis of level of development economies can be classified in two categories:

1. Developed economy
2. Developing economy

The countries are labeled developed or rich and developing or poor on the basis of real national and per capita income and standard of living of its population. There used to be developed, developing and underdeveloped economies, but this has changed of recent. Developed countries have higher national income (GNP) and per-capita income, high rate of capital formation i.e. high savings and investment. They have highly educated human resources, better amenities, including health, education, electricity and sanitation facilities, low birth rate, low death rate, low infant mortality, low maternal mortality, developed industrial and social infrastructures and a strong financial and capital market. In summary, the developed countries have a higher standard of living. Developing countries are low on the ladder of development. They are sometimes also called underdeveloped, or poor countries. Economists prefer to call them developing countries because it sounds more politically correct. The national and per capita income is low in these countries. They have inadequate amenities, high death rate, high population rate, backward agricultural and industrial sectors with low savings, investment and capital formation. Their GDP, GNP and per capital income is low.

**ECONOMIC DEVELOPMENT**

Sustained economic growth leads to economic development. Economic growth as distinguished from economic development, is a sustained increase in national income, year on year. Taking the differences in population into consideration, it is reflected in the growth of per-capita income (i.e. national income divided by total population). Although there may be year-to-year fluctuations or short-term variations in the growth of national income, there has to be a continuous growth in national income in the long run for it to qualify as economic growth. This means that both the national income has to be growing consistently and the population growth rate has to be proportionate to the income growth or better still lower, or else the growth in national income will be wiped out by the increase in population growth rate. Economic development, on the other hand, includes both economic growth and various other economic changes that improve the quality of life and standard of living of people in a country. If with economic growth, citizens of a country experiences various economic changes such as reduction in unemployment and poverty, reduction in income and wealth inequality, improvement in health, increase in literacy rate and hygiene, improvement in environmental standards, decrease in population growth, etc, all of which improves the quality of life. This is economic development. Such economic changes that are conducive to improvements in standards of living of people are necessary for economic development. Otherwise, standard of living of the people may not improve in-spite of economic growth. It may happen that with economic growth, the rich get richer while the poor get poorer, which is measured by Gini coefficient. A higher Gini Coefficient is manifested when the fruits of growth are snatched by the richer sections of the society. Clearly, economic development is a much broader concept than economic growth. In summary, economic development is what is desired, as it contains elements of economic growth and improve quality of life, meaning quantity and quality improvement in peoples’ standard of living or quality of life.

**DETERMINANTS OF ECONOMIC DEVELOPMENT**

The process of economic development is influenced by a number of economic as well as non-economic factors. The important economic factors are as follows:

1. Capital Formation: Capital goods are crucial for rapid economic growth. For increasing the capital goods, rate of savings must be high, which will then be invested. Given the rate of savings, which is then invested, the rate of growth will depend on the capital output ratio. If the savings are not enough, the government can look for external assistance, such as loan or grant, to increase capital formation and growth rate in countries that are still developing.
2. Natural Resources: Available natural resources facilitate and accelerates economic growth and economic development, if well utilised. It is believed that quantity and quality of natural resources affect the rate of growth.
3. Human Resources: A high quantity and quality of human resources or working population is another important determinant of economic development.
4. Technology: Technology can play an important role in the economic development, as it can be used to bridge human resource and natural resource gap that may exist in a country. Technological progress depends upon continuous research and development.

Besides these economic factors many other non-economic factors such as (i) The level of good or bad governance (ii) Corruption (iii) racial factors, and (iv) government policies also affect the rate of growth and economic development. It is very difficult to measure economic development and to give one index of economic development. The most commonly used index of economic development i.e. increase in per capita income suffers from a serious setback. This index does not take into account the consumption of natural resources and environmental degradation such as carbon emission from the industries or the pollution caused by various industrial waste and by-products in the air and water resources. The falling of forest and selling of timber will earn income and will be considered an economic activity and the income added in the national income statistics but the harm caused by deforestation will not be shown as a negative entry in the national accounts statistics. As a result of these, economist are seriously working on preparation of some new index that may account for these environmental costs to the society and can be used as a welfare index of the society.

**DISTINCTION BETWEEN ECONOMIC DEVELOPMENT AND ECONOMIC GROWTH**

Economic growth is a short-term measure and generally refers to year to year rise in national and per capita income in real terms. But the income index does not consider the distributional aspects of national income. Another important thing is that income approach does not consider the unproductive and dysfunction growth and productive and socially useful growth. Economic development on the other hand is a long-term measure over a period. The economic development refers to a better quality of life and overall rise in standard of living. Besides income index some non-income indices are also taken into account. These are high life expectancy at birth, low infant mortality, low maternal mortality and high rate of literacy. An improvement in these non-income indices imply that the quality of life has also improved. Some important institutions such as the UN and some international NGOs include the basic needs approach, which they see as part of human right, such as availability of food, drinking water, clothing and shelter, sanitation and public transport facilities good health and education as an index of economic development. The objective of development, therefore, is meeting the needs of the population, particularly the poor and excluded. The United Nations Development Programmes emphasizes on Human Development Index (HDI) that is based on per capita income, educational attainment and life expectancy. Thus it is a composite index of economic and social indicators. The economic development, therefore, is a much wider term to capture overall improvement in the quality of life of people.

## **2.3 Concept of Political Economy**

Having considered the concept of politics and then economics, it is time we considered the concept of political economy, which is in some sense a combination of both concepts. Offering a conceptual point of view, a dictionary of economic terms tells us that “political economy is the science of wealth” and “deals with efforts made by man to supply wants and satisfy desires” (Eatwell, Milgate, and Newman, 1987: 907). But following Williams’ socially grounded etymology, it is important to state that before political economy became a science, before it served as the intellectual description for a system of production, distribution, and exchange; political economy meant the social custom, practice, and knowledge about how to manage, first, the household, and later, the community. Specifically, the term “economics” is rooted in the classical Greek oikos for house and nomos for law. Economics initially dealt with household management, a view that persisted into the work of founding influences in classical political economy, Scottish Enlightenment figures like Francis Hutcheson and Adam Smith. “Political” derives from the Greek term (polos) for the city-state, the fundamental unit of political organization in the classical period. Political economy started from the management of the family and political households. Writing fifteen years before Smith’s Wealth of Nations, Steuart (1967: 2) made the connection by noting that “What economy is in a family, political economy is in a state.” It is also important to note that from the very beginning, political economy combined a sense of the descriptive and the prescriptive. As communication scholar Dallas Smythe describes its “meta-political economy,” as “the body of practice and theory offered as guidance by counsellors to the leaders of social organizations of varying degrees of complexity at various times and places” (Smythe, December 4, 1991). This is in keeping with the Dictionary of Economic Terms, which defined the original intent of political economy as a “branch of statecraft,” but which is now “regarded as a study in which moral judgments are made on particular issues” (Gilpin, 1977)

The Dictionary of Modern Economics defined political economy as “the theory and practice of economic affairs” and noted that: Originally, the term applied to broad problems of real cost, surplus, and distribution. These questions were viewed as matters of social as well as individual concern. With the introduction of utility concepts in the late nineteenth century, the emphasis moved to changes in market values and questions of equilibrium of the individual organisation. Such problems no longer required a broad social outlook and there was no need to stress the political aspect.

Political economists are concerned about gains and losses incurred with the implementation of public policies. It gives an idea as to which policy works, why it worked, who supported such policies.

Capital, labor and technology are used to influence political processes and generate policy outcomes with the most benefit. The political behavior in an economy is shaped by:

1. Interests

This covers the interest of individuals and groups who can use their power to influence policy. politicians tend to promote their own economic and political interests that will help them retain power or get into power, while those outside the government are often more concerned about the outcome of the economic policies implemented.

2. Ideas

Ideas are important influence on policy, in addition to economic and political interests. It is believed that individuals are self-seeking and rational and that they are unable to assess the outcomes of all the choices available to them.

Ideology allows an individual to remain consistent with their basic values and beliefs and how to achieve that. Incorporating ideology into political economic models allows political action to be guided, with less factors of self-interest.

3. Institutions

Institutions help structure incentives facing individuals and groups within the economy. There are political rules that include the constitution and define how leaders are chosen and how a new policy can be implemented.

A far more general and ambitious definition of political economy is the study of control and survival in social life. Control refers specifically to the internal organization of individual and group members, while survival takes up how they produce what is needed to reproduce themselves. Control processes are broadly political in that they involve the social organization of relationships within a state, while survival processes are fundamentally economic because they concern the production of what a society needs to reproduce itself. The strength of this definition is that it gives political economy the breadth to encompass at least all of human activity and arguably all organic processes.

Political economy, from the time of its founders, has also maintained that the discipline should be firmly rooted in an analysis of the wider social totality. This means that political economy spans the range of problems that today tend to be situated in the compartments of several academic disciplines where those with an interest in social class go to sociology, those interested in government to political science, in the market to economics, and so on. From the time of Adam Smith, whose Wealth of Nations knew no disciplinary boundaries, political economy has been taken up with the mutual constitution and multiple determination of social life.

## **2.4 Theories of Political Economy**

**Game Theory**

Game theory is the logical analysis of situations of conflict and cooperation. Game theory could be formally defined as a theory of rational decision in conflict situations. Model of such situations, as they are conceived in game theory, involve

a) a set of decision makers, called players;

b) a set of strategies available to each player, courses of action which he or she may choose to follow;

c) a set of outcomes, the strategies chosen by each player determine the outcome of the game;

d) a set of payoffs accorded to each player in each of the possible outcomes. (Rapoport, 1974, p.1).

Game theory is the study of how players should rationally play games. Each player would like to play the game to end in an outcome which gives him or her an advantage. He or she has some control over the outcome since his/her choice of strategy will influence it. The field known as ‘game theory’ was introduced in the last century by mathematicians and economists as a tool to analyze both economic competition and political conflicts. Two distinguished game theorists Robert Aumann and Oliver Hart, explain the attraction in the following way: Game Theory may be viewed as a sort of umbrella or ‘unified field’ theory for the rational side of social science, where ‘social’ is interpreted broadly, to include human as well as non- human players (computers, animals, plants). It develops methodologies that apply in principle to all interactive situations (Aumann and Hart, 1992, P. 3)

Game theory are situations, where the result for a player does not depend on his own decisions alone, but on the behavior of the other player(s) also. Game theory is the theory of independent and interdependent decision making in organizations where the outcome depends on the decisions of two or more autonomous players, one of which may be nature itself, and where no single decision maker has full control over the outcomes (Kelly, 2003). The concepts of game theory provides a common language to articulate, analyze, structure and eventually understand different strategic scenarios. Game theory is a scientific discipline that investigates conflict situations, the interaction between the agents and their decisions (Hotz, 2006). To perform the analysis of critical situations, Game theory uses not only mathematical apparatus, but also an important tool in economics, political science, law, psychology, philosophy and other disciplines.

Game theory is widely used in political affairs, which is focused on the areas of international war strategy, war bargaining, politics, social choice theory, Strategic voting, political economy etc. Game theory is an effective tool in the hands of politicians and diplomats to analyze any situation of conflict between individuals, companies, political parties, and states. Rationality of actors and the choice of strategies are one of the basic assumptions of game theory. Game theory seems to be useful tool for research on terrorism because it captures the interaction between terrorist organization and attacked subject, when the steps are interdependent and therefore cannot be analyzed separately (Sandler and Arce M, 2003)

**Rational Behavior Theory**

Game theory is a useful and potential tool for the understanding of human affairs. Game theory has been expounded as a part of a general theory of Rational Behavior. Rationality is a normative concept, which indicates to what we should do to attain a given end or objective. When we are thinking of behavior involving a choice of the best means available for achieving a given end that is ‘rational behavior’ (Harsanyi, 1980). Rational behavior models are widely used in game theory. According to Von Neumann and Morgenstern: ‘We wish to find the mathematically complete principles which define ‘rational behavior’ for the participants in a social economy, and to derive from them the general characteristics of that behavior’ (1944, p. 31). Game theory as a theory of rationality advice what players should do in specific interactive situations, given their preferences

**Decision theory**

Flowing from the Rational Behavior Theory, Decision theory is the analysis of the human behavior, which concentrates on identifying the ‘best’ decision option to decision makers. Decision theory provides the rationality of decisions in the light of preferences over outcomes and beliefs about the likelihood of outcomes. Game theory is closely related to decision theory, which studies inter-actions between self-interested players. Game theory along with decision theory analyzes interdependent decision problems between rational, strategic agents. The basic difference between the two is that, while decision theory treats all outcomes as external events, ‘moves of nature’, the Game theory prime source of uncertainty for an agent is the way other agents will behave (Cristina, 2007).

## **2.5 Origins of Political Economy**

The history of modern political economy begins with classical political economy, which we can trace to the work of father of Economics, Adam Smith’s Wealth of Nations (2007 [1776]). This book is the dividing line between the scattered insights on economic processes throughout recorded history, including other important precursors to Smith, such as David Hume, and virtually all modern, enlightenment approaches. Smith was considered part of a group of intellectuals who constitute what was called the Scottish Enlightenment. Smith’s Wealth is a magisterial treatise on the process of economic development, the importance of incentives, governmental policy analysis (of the day), and even human nature. Smith clearly articulates that, individuals have incentives in any exchange setting to concentrate their efforts on their own interests. Note, moreover, that this “self-interest” should not be confused with “venal” or “knavish” behavior, as we know from Smith’s careful consideration of ethical conduct in his Theory of Moral Sentiments (1759). From Smith’s perspective, individuals therefore have incentives, to first specialize on the production or employment side, which makes them more productive, or able to produce more output with the same or fewer inputs. Secondly, it economizes on the consumption side.

**Adam Smith‘s Views on the Political Economy of Capitalism**

Political economy is one that protects its citizens, creates conditions for wellbeing, including economic growth, and provides public services in the context of personal liberty protections of rights, and enforcement of laws of justice. Adam Smith provided a blueprint for a model of social organization based on the system of perfect liberty. Private property and voluntary exchange are the main features of the capitalist economy. Smith offered an important insight into the role of the division of labor, capital accumulation, competition and private property in creating a functioning and prosperous society. He gave a vision of the society moving towards a distant but clearly visible goal of Progress. Smith gave a vision of society where individuals are following their self-interest without state interference or a central planning authority, through a mechanism called Political Economy, or, in today's language, economics. In his laws of market, he tried to respond to the fundamental question of how the private interest and passion of individuals can be led in a direction that can bring foreseeable beneficial results for society as a whole. He explored the mechanism through which society is held together, despite everyone busily following his or her self-interest, but somehow the interest of the society is also being pursued.

He demonstrated through his laws of market that competition among self-motivated individuals will result in the provision of commodities to society at market price that society is prepared to pay, majorly driven by the law of demand and supply. According to Smith, The natural price therefore is as it were, the central price, to which the prices of all commodities are continually gravitating. Different things may sometime keep them pending a good deal above it, and sometimes get them down below it. But whatever may be the case which stops or prevents them from settling in these middles of repose and continuance; they are constantly moving towards it. However, this is only possible in the case when the market operates under the condition of perfect liberty, known as free market, where prices are not fixed and entry and exit is at will. Individual self-interest in a market economy, under the condition of perfect liberty, is guarded through competition rather than any planning authority. Competition gets the selfish motives of men through a self-regulating system of the market system for society's eventual benefit. The law of population and the law of accumulation, gets the productivity of the market in an ascending spiral. For example, in the case of labour, if accumulation reaches its saturation point, where more demand for labor increases the wages to the extent that they eat deep into the profit, then the law of population will bring the balance back (Heilbroner, 1999).

Smith was the economist of pre-industrial capitalism and his name is often heard along with the terms laissez-faire, self-interest and invisible hand. However, even with Smith's eulogy of a free and unfettered market, he identified three important functions of the government in a society of natural liberty. Firstly, the government should protect that society against the violence and invasion of other societies. Secondly, the government should provide an exact administration of justice for all citizens. And thirdly, the government has the duty of setting up and maintaining public institutions which would be in the highest degree advantage to a great society, but which are of such a nature that the profit could never repay the expense to any individual or small number of individuals (Heilbroner, 1999). Careful examination of Smith’s writing clearly opposes the minimalist view. According to Butgereit & Carden (2011) Smith’s opposition to mercantilism cannot be extended to any other form of government activism. Smith has a tripartite model of society, comprised of three different but interrelated modes of social control: moral rules, law, and the market. Each of these models works in its own way to channel individual behavior into socially apprehended directions.

**John Maynard Keyne’s General Theory of Political Economy**

According to Lekachman (1966), the Great Depression, more than any previous economic crisis, ignited a fundamental rethinking of the future of the capitalist system. The world thought what would have gone wrong with the market system to cause such an unprecedented collapse? Could the capitalist system survive? Was there a way to tame its “boom and bust” cycles? Did it even deserve to survive and, if so, on what terms? The triumph of communism in Russia and fascism in Germany suggested that capitalism would soon give way to one or the other of these extreme alternatives. The great depression era produced three influential but widely diverging statements about the future of capitalism: John Maynard Keynes’s *General Theory of Employment, Interest, and Money* (1936), Joseph Schumpeter’s *Capitalism, Socialism, and Democracy* (1942), and Friedrich Hayek’s *The Road to Serfdom* (1944).

All these were works of political economy, as they wove together the inter-connected subjects of politics, culture, institutions, and economic theory. They were also works that were long in gestation in the minds of these influential economists. In this sense, they contained their considered reflections on the world crisis through which they were living. All three authors were well known in academic and policy circles long before these works were made public. To some extent, each author developed his ideas in response to theoretical challenges posed by the others. Many years after they were first published, these works continue to be relevant and they still of influential public doctrines: Keynes’s *General Theory* for orthodox liberalism, *The Road to Serfdom* for market liberalism, and *Capitalism, Socialism, and Democracy* for conservatism and neo-conservatism, or for the belief that culture is decisive for the survival of capitalism. For this reason, some have called these economists the “political philosophers” of the 20th century (Skidelsky; 2009).

Among these theorists, Keynes exercised by far the greatest influence in the post-depression and post-war era—to the extent that one economist has labeled this “the age of Keynes. In the Anglo-American world, his *General Theory* is probably the most influential work of economics published in the 20th century. Keynes, far more than Hayek, Schumpeter or any other author of the time, went beyond diagnosis to offer practical solutions to the economic crisis of the 1930s, providing policy makers with set of alternative fiscal solutions by which they might at least solve the problem of the business cycle. His work also inspired the study of economics beyond the individual and the firm and toward the macro-economy. Though his theories have its weaknesses, like many other and have gone in and out of fashion over the decades, they never really lost influence among economists and, especially with policy-makers. The current Covid 19 crisis has provided still another occasion to apply Keynes’s fiscal tools.

Keynes’s theory also pointed toward a far-reaching revision in the relationship between the state and the economy in capitalist systems, with the state now assuming a steering function over the economy never envisioned by the 18th century architects of the liberal order. Keynes wanted to save capitalism from itself but the new role he assigned to the state did not necessarily go smoothly with the institutions inherited from the era of classical liberalism and *laissez faire.* These institutions, and the cultural assumptions that supported them, were designed to check the power of the state and to defeat the kinds of aims that Keynes had in mind. The Keynesian revolution in economics thus implied a second revolution in politics that would circumvent the barriers to state action handed down from the 18th and 19th centuries. Among Keynes’s critics, Hayek in particular pointed to the threat his enterprise posed to the institutions that protected liberty and limited the sphere of government action. giving so much power to government and limiting the power of individual and businesses to operate in search of their own interest, but which eventually reaches the general public.

This political dimension—the political economy of Keynesianism—never received detailed attention either from Keynes or from the influential economists who worked out the implications of his theory in the post-war era. Quite the reverse, *The General Theory,* as its ideas worked their way through the economics profession, had the effect of excising politics and political institutions from the analysis of market economies. One only has to look at any of the various macroeconomic models now in play to see that this is so. The Keynesian revolution was primarily one of economics and economic policy, and Keynes’s legacy was taken over by economists who became the stewards and interpreters of his thought. It was one of the paradoxes of this revolution that it assigned new powers to the state at the same time as it diminished the role of politics in the analysis of the new system.

This was not a consequence of which Keynes necessarily would have approved or one that was implied in his voluminous writings. Keynes was by no means solely an economic theorist but a thinker with the widest range of interests. Robert Skidelsky, Keynes’s biographer, asserts that he was as much a moralist as an economist. As Keynes wrote in an essay on Alfred Marshall, his mentor at Cambridge, the “master economist” must possess many gifts: “He must be a mathematician, historian, statesman, and philosopher, in some degree. No part of man’s nature or his institutions can be outside his regard.”  As some have suggested, Keynes was the political economist who did more than any writer before or since to interrupt the tradition of political economy that originated with Adam Smith and David Hume (Skidelsky;2009).

Marshall (1963) observes that Keynes understood capitalism to be an historical institution that evolved through different phases, with each one calling for new modes of theory and understanding. He wrote persuasively about the cultural and political forces that brought about an end to the “age of *laissez faire.*” Keynes, like the master economist he described in his tribute to Marshall, performed the roles of philosopher, historian, and economist in trying to explain why the old order collapsed and why it could not be rebuilt on its former terms. Keynes spent the interwar years wrestling with the European crisis brought on first by war and then by economic upheaval. If the old order was dead, then another had to be constructed on new intellectual foundations. This was a challenge that Keynes addressed in a series of essays and books that he published during this period, culminating in the publication of *The General Theory.*

**David Ricardo’s Contributions and System**

Ricardo’s approach to economics differed significantly from that of Adam Smith. Ricardo was a pure theoretician, an architect of a simple, highly abstract model from which he drew policy conclusions. His most important assumption was that economic growth must decline and end due to the scarcity of land and its falling marginal productivity (De Vivo; 1997). In this, we see the origin of John Stuart Mill’s later contention that economic stagnation would flow from the working out of the capitalist productive process. It also is very suggestive of later arguments by John Maynard Keynes of the continuing potential macro stagnation that, according to Keynes and many of his followers, flows from a chronic insufficiency of aggregate demand in any relatively closed-market economy. Ricardo’s foremost contemporary critic was Malthus, author of the famous pamphlet An Essay on the Principle of Population. It was from Malthus that Ricardo took the argument of an ever growing population that pressed against all economic expansions, an assumption that was at the heart of Ricardo’s model. His major consideration in his Principles was to show how distributional changes between rent, wages, interest and profit affected the prospects for long-run capital accumulation and economic growth. Ricardo argued that Britain ought to import corn from countries better equipped to produce it at lower cost, considering comparative advantage. He hated the rising rents he attributed to the laws, since they came, in his view, at the expense of the driving force of the economy. Ricardo had provided an answer to Britain’s long-term growth problems, and Britain became the “workshop of the world,” importing most of its food and “outsourcing” most of its agricultural employment. They didn’t have the comparative advantage for food, but did for labor. Ricardo’s ideas became “the fountainhead of all nineteenth-century free trade doctrine

One of the ideas for which Ricardo is most remembered is the theory of comparative advantage. Ricardo demonstrated that for two nations without input factor mobility, specialization and trade could result in increased total output and lower costs than if each nation tried to produce in isolation. Since Ricardo’s exposition, the distinction between absolute and comparative advantage has been taught as one of the field’s most brilliant insights. Nations will export not only what they have an absolute advantage in producing, but also what they have a comparative cost edge in producing. Some historians of economic thought have sought to show that James Mill and Robert Torrens, stated the idea, or something close to it, prior to Ricardo. Such writers tend to discount Ricardo’s version of the theory as very short and possibly even incorrect

**Joseph Schumpeter’s Political Economy**

The name of Joseph Schumpeter is still a prominent one in the social sciences. He was undoubtedly one of the leading economists of his generation. That by itself would have been enough to ensure him lasting fame, yet his importance as a social theorist extends far beyond that which is pointed simply to his performance as an economist. The bulk of Schumpeter immense theoretical contribution, was directed toward an investigation into entrepreneurial capitalism as a transitory, historical phenomenon. This analysis of the growth of capitalism was tied to both a general theory of social classes and a detailed inquiry into the nature and function of the capitalist class. Nevertheless, while it is generally conceded that Schumpeter had a unified, vision of the social process, few attempts have been made to examine his overall theory as a systematic whole. Consequently, literature such as Imperialism and Social Classes, The Theory of Economic Development, and Capitalism, Socialism and Democracy are read without mention to the Schumpeterian system in all of it. This reveals that Schumpeter's broad vision of society, even more so perhaps than that of Weber, represented a major endeavour to turn "Marx upside down," raising methodological and historical issues that still lie at the heart of political economy as a science in our time.

 Schumpeter's general theory of the rise and fall of capitalism is not to be found in any single treatise, but only through a careful examination of several distinct works widely separated by both time of composition and theoretical orientation. A visible aspect of Schumpeter's overall theory of capitalist development was his typical method of combining economic variables with a study of social leadership. The entrepreneur or "innovator," first introduced in Theory of Economic Development (1911), was viewed as comprising the most dynamic element of the capitalist class, responsible for both economic development and the creation of "surplus value." The theory of the entrepreneur - always these hinges upon which the entire Schumpeterian system turned - opened the door to a general theory of classes as functional groupings, which was later to be uttered in the lengthy essay, Social Classes in an Ethnically Similar Environment (1927), and to a conception of the decline of the capitalist system from within through a transformation of the entrepreneurial function. In Business Cycles (1939) and in Democracy, Capitalism and Socialism (1942), written over a quarter of a century after Theory of Economic Development, Schumpeter's was to bring-these lines of thought to their completion. As Paul Sweezy once suggested, the essay Social Classes can be looked upon as representing Schumpeter's Theory of Economic Development, the Theory of origins of capitalism; and Business Cycles; the theory of development; and Capitalism, Socialism and Democracy and the theory of decline.

**Marx and Political Economy**

 Karl Marx, just like Hegel, criticizes political economy both for failing to relate its insights to a broader set of social concerns and for failing to recognise its nature as a historically grounded system of thought and practice. In the same way, he sees these two failures as interlinked. Classical economic thought was unable to adequately conceptualize the relationship between political and economic developments and social factors, because of the way in which it viewed relationships and categories particular to capitalism as having wider historical authenticity. On the other hand, the inability of classical political economy to recognise that its insights were temporally constrained, arose from its lack of attention to the context in which those insights were embedded. Marx writes partly from within the tradition of political economy, arguing in detail with writers like Smith and Ricardo about problems which are clearly defined within the framework of analysis arising from tradition. He seeks to exploit the contradictions and lacunae which he finds in the work of the classical political economists. However, he also criticises classical economic opinion from the outside, questioning the entire basis on which political economy has been conceived and posing a completely different substitute.

The simultaneously internal and external nature of Marx’s criticisms has given rise to extensive debate concerning the extent to which his work can be assimilated to classical political economy and examining the extent to which he can be seen in any sense as an ‘economist’. On one hand, writers like Paul Sweezy, Maurice Dobb and Ronald Meek, who played an important role in sustaining discussion of Marx’s work in the politically difficult period between the 1920s and the 1960s, discuss his writing principally with reference to the economic approach inaugurated by Quesnay and Smith (Meek 1973). At the same time, however, more philosophically oriented assessments of Marx tend to emphasise the external nature of his relationship to political economy.

For example, Tony Smith writes I argue that Marx’s success in establishing his perspective thus stands or falls with his use of dialectical logic. This, of course, is not to deny that in Capital and elsewhere Marx made several and thoughtful contributions to political science, economics, history, sociology and anthropology and so on, that can be deemed independently of dialectical logic. But ignoring dialectical logic ignores what makes the work a whole, as opposed to an aggregate of distinct empirical studies. (Smith 1990, p. 32). In Smith’s account, then, political economy becomes one among several systems of thought which Marx analyses on the basis of the dialectical method he developed, in large part through his reading of Hegel. The implication is that to describe Marx as a crucial political economist is to give an unwarranted privilege to his relationship to economic thought, as compared to his critiques of other aspects of social theory. The difference between these two views of Marx’s project has caused some interest to recent commentators on his work, especially those who have attempted to explore the repercussions for his thought of the work of the post-critical theorists who are the subject of this discuss.

## **2.6 Institutional Features of a Capitalist Political Economy**

Microeconomics is the study of how markets (institution of capitalism), coordinates decentralized decision making through a price mechanism to bring demand and supply into equilibrium. In this time-tested perspective, capitalism is a largely self-regulating economic system in which the major role of government is limited to providing certain basic public goods and services at affordable cost. Capitalism is a system of governance for economic affairs that has emerged in different settings and continues to evolve over time, as was discussed by Adam Smith in previous section. As a consequence, it evades simple definition. The Macmillan Dictionary of Modern Economics defines capitalism as a political, economic and social system in which property, including capital assets, is owned and controlled for the most part by private persons. Capitalism contrasts with an earlier economic system, feudalism, in that it is characterized by the acquisition of labor for money wages as opposed to the direct labor obtained through custom, duty or command in feudalism. Capitalism recognizes the price mechanism as its key coordinating device instead of command and control and suggests that capitalist systems are distinguishable from one another based on the extent and nature of governmental interventions and the competitiveness of the market.

Government’s mode of intervention in a capitalist system is primarily indirect: it creates, legitimates, administers and periodically modernizes the various market frameworks that spell out the conditions in which the economic actors may acquire and employ capital and labor to produce, distribute, and sell goods and services. Government is seen as the regulator, which it does by putting in place policies and ensuring compliance to the policies. Economic actors receive the right to use their power in competition with others, subject to prevailing laws and regulations. The market frameworks can have quite different policy priorities, from protecting the status quo to the promotion of growth and development, from protecting consumers to protecting producers, and from protecting labor to protecting capital. Governments indicate the responsibilities of various stakeholders in these transactions.

While profitable capitalism depends upon the granting of power to private actors to enter, compete in, and exit from markets, it also depends upon the governments’ power to control the private actors so that they do not abuse these powers. To be legitimate as well as productive, private actors must be bound by the rule of law, and this rule of law must be backed by the forcible powers of the government. The powers of the government are employed to restrain the private actors from breaking the rules and, if need be, to settle disputes. In summary, profitable capitalism is conditional upon a state monopoly of forcible powers.

Capitalist systems typically rely on the state to make direct provision of certain public goods, including law enforcement, protection of life and property, highways, schools and health delivery and other social amenities, that are seen as right of the citizen. The state or government is expected to refrain from the temptation to own, manage, or directly control the economic actors. If the state does become a direct economic actor, for example as the owner of large enterprises, it becomes a player as well as a referee. This puts state agents in roles that conflict. For example, as a player and as a regulator that need not be subject to the discipline of the markets. There are times when states may play both roles, as in the case of natural monopoly or a national emergency, but it is best if these interventions are for reasons well known and understood, for example national security. If direct state interventions are pervasive and/or last for so long, they invite corruption and the distortion of market frameworks for the benefit of the few at the expense of society as a whole.

Capitalism involves a very complex set of relationships, where many actors have power, and each has the capacity to influence how the system works. At the same time, it is fundamentally different from any mechanical system in that its components have renewing powers and their relationships continue to evolve through time. It is therefore more useful and seen as a system that is organic or social than one ruled by rigid laws like physics. Organized sports provide a useful analogy to a capitalist economy. The similarity can be helpful because organized sports are smaller, simpler systems and therefore more easily comprehended as totalities. Organized sports also grow, but typically at a much more measured pace than the dynamic sectors of a capitalist economy. Most people have observed one or more organized sports and are accustomed with competition in a regulated context. They can distinguish between a contest with rules and referees and a contest without a referee, which can deteriorate into a free-for-all. While there are important connections between organized sports and capitalism, there is need to be aware of some differences, which will allow us to highlight distinct characteristics of capitalism.

# **3.0 Conclusion**

Political economy is one of the oldest terms in the social sciences. It was once synonymous with the study of economics, while incorporating the study of the state, philosophical issues concerning human needs and economic history. Political economy has, however, become an ‘orphan’ of modern social sciences with its fragmenting into the present disciplines. It is an interesting field of study in the social sciences, as it dates back to the works of influential thinkers from the 17th and the 19th centuries that were concerned with the workings of the capitalist system. It is plausible to call those thinkers philosophers or political economists. In the contemporary world system, political economy has become multidisciplinary in nature that covers issues of wealth and power; hence it is at the intersections of politics, economics and other disciplines such as international relations, sociology among others. Economics has become the narrow and limiting study of resource allocation via prices and the determination of aggregate output on the basis of a theory of individual rational choice, within an overly formalistic and mathematical framework. These different usages and approaches to political economy are still important today. Recently, political economy has become used as a more general term to encompass economists, political scientists and others doing critical social research on liberal democracy, markets and capitalism. This course strengthens knowledge and competence in political economy in several ways. One of these is to develop a theoretical foundation in the practice of political economy that does not treat economic questions apart from political ones, and that develops analytical competency across the main social science practices.

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