

# Global Political Economy and Political Economy Components

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## Abstract

This is an article which includes the nature of political economy. Here the global economy is explained. Here the focuses of political economy is also explained. The components of political economy how related with the traditional economics are also explained. Anyone can know about the nature of power and distinction with political and other types of power through this article.

**Keywords:** Economy; Global; Focus; Interaction; Components; Power.

## 1. Introduction

First of all discussing about economy. It is not a monolithic institution – it is a collection of billions of individual choices based on people's incentives Economy – from the Greek word “household” – assets and activities for production and exchange. An economy is an area of the production, distribution, or trade, and consumption of goods and services by different agents. Understood in its broadest sense, 'The economy is defined as a social domain that emphasize the practices, discourses, and material expressions associated with the production, use, and management of resources'. Economic agents can be individuals, businesses, organizations, or governments. Economic transactions occur when two parties agree to the value or price of the transacted good or service, commonly expressed in a certain currency. However, monetary transactions only account for a small part of the economic domain.

## 2. The Political Economy

It is the study of how politics and economics interact, and how they balance freedom and equality .It is not a monolithic institution – it is a collection of billions of individual choices based on people's incentives. Political economy is the study of production and trade and their relations with law, custom and government; and with the distribution of national income and wealth. As a discipline, political economy originated in moral philosophy, in the 18th century, to explore the administration of states' wealth, with "political" signifying the Greek word polity and "economy" signifying the Greek word "okonomie" (household management). The earliest works of political economy are usually attributed to the British scholars Adam Smith, Thomas Malthus, and David Ricardo, although they were preceded by the work of the French physiocrats, such as François Quesnay. Political economy is the study of production and trade and their links with custom, government and law. It is the study and use of how economic theory and methods influence and develop different social and economic systems, such as capitalism, socialism and communism; it also analyzes how public policy is created and implemented. Since various individuals and groups have different interests in how a country or economy is to develop, political economy as a discipline is a complex field, covering a broad array of potentially competing interests.

In other words, political economy is about

- a) the role of the state with regard to the economy,
- b) interactions between political and economic processes, and
- c) Distribution of social power based on property and wealth.

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Political economy also involves the use of game theory, since groups competing for finite resources and power must determine which courses of action will give the most beneficial results, and what the probability of those results being reached are.

Political economy (Adam Smith) – “branch of science of a statesman or legislator” concerned with:

- a) “providing a plentiful revenue or subsistence for the people”
- b) “supplying the state or commonwealth with a revenue sufficient for the public service”

First, political economy is “political” in that it involves the use of state power to make decisions about who gets what, when, how, and why in the distribution of public goods and social values.

Second, political economy is about the economy or economics, which means that it deals with how scarce resources are allocated to different uses and goods are distributed among individual actors. As the term suggests, political economy brings together both political and economic considerations in allocating resources.

In the contemporary setting, political economy talks about the different but linked approaches to defining and studying economics and other related behaviors. Political economy may be approached in three different ways. Political economy is a social science that studies production, trade, and their relationship with the law and the government. It is the study of how economic theories affect different socio-economic systems such as socialism and communism, along with the creation and implementation of public policy.

### **3. Global Political Economy**

Global political economy, or international political economy – the same, applied to the entire world. Global political economy is a field of study that deals with the interaction between political and economic forces. At its center have always been questions of human welfare and how these might be related to state behavior and corporate interests in different parts of the world. Despite this, major approaches in the field have often focused more on the international system perspective. A side effect of this has been the relative neglect of non-elites and an all-too-often missing recognition of ordinary individuals. While states remain central to international politics, they have gradually intensified their relations with multinational corporations and strengthened their engagement with international organizations. Naturally, these changes in the world around us have led to a certain rethinking of the way we understand and position individuals as actors in the global economy. To account for this, many scholars now prefer to use the term ‘global political economy’ (GPE) over the more traditional term ‘international political economy’ (IPE). Although both terms are often used interchangeably, using the word ‘global’ is important as it indicates a wider scope in political economy that reaches beyond relations between states.

#### 4. Political Economy Focuses On

- a) The interaction between the state and the market
- b) By state we usually refer to the political institutions of the modern nation-state, a geographic region with a well-defined territory and population and a coherent and autonomous system of government capable of making collective decisions and exercising sovereignty, including a coercive apparatus and the legitimate use of physical force to administer control over the population within its territory.
- c) By market we usually mean the economic institutions of modern economy, which are dominated by individual self-interest and conditioned by the “invisible hand” of market forces through the balance of demand and supply.

#### 5. Components of Political Economy

##### ☐ Every regime’s ideology determines the relationship the state will play in regulating the economy

- a) Markets – interaction between supply and demand that functions to allocate resources
  - a) Freely allow individuals to buy, sell, and trade what they produce for what they will consume
  - b) Sets values, or “prices” for these goods and services
  - c) Markets arise spontaneously, and are difficult for the state to control

##### ☐ Property – ownership of goods and services

- a) State can choose to play a role in protecting *property rights* – the right to sell property freely, or to not have it taken away
  - a) In LDCs, frequently *property* exists without a fundamental protection of *property rights*, due to the state’s inability to monitor instances of fraud

##### ☐ Public Goods – goods provided and/or secured by the state

- a) Examples (universal): Roads, lighthouses, the military
- b) Examples (in some cases)
  - a) Health care in Britain, Canada
  - b) Oil in Nigeria and Saudi Arabia
  - c) Most businesses in Cuba

**□ Social Expenditures**

- a) Commonly called “The Welfare State” – redistribution of wealth through government taxing some, and paying others
- b) Typically provided to the elderly, the unemployed, the poor, and the disabled
- c) Often a subject of political battle, due to the question of who benefits from expenditures

**□ Taxation**

- a) Means to provide for public goods and social expenditures
- b) Subject of political battles, determined partially by ideology toward the role of the state

**□ Money, Inflation, and Unemployment**

- a) States create and manage the money supply through a *central bank*
- b) Money is created by the rate at which banks make loans
  - a) Low interest rates encourage more creation
  - b) High interest rates discourage creation
- c) Creation of too much money in effort to stimulate the economy and reduce unemployment can cause inflation
- d) Slowing the growth of money to control inflation can slow economic growth and cause unemployment to rise

**□ Regulation – rules or orders to set the boundaries of given procedures**

- a) States can ban production or sale of goods, set safety requirements, outlaw monopoly control, etc.

**□ Trade – access to goods and services from foreign states**

- a) States can allow open trade, or restrict it through tariffs, quotas, and other non-tariff barriers

**6. The Interaction between States and Markets**

The period from the 2000s to the present has seen many continuities with the past but also some important shifts. New global and development challenges are emerging, as established priorities around economic growth and poverty reduction are joined by pressing concerns with tackling inequalities, addressing climate change and environmental degradation, mitigating conflict and violence, and more. Global interconnectedness is also

intensifying. From climate change to epidemics, finance to food, war to terrorism, recent events underscore how hazards arising in one part of the world increasingly extend through mobile ideas, people, microbes, atmospheric particles, money and information in a highly networked world to affect others elsewhere. Novel risks and hazards are generated which affect all people and places, albeit in very different ways.

The global political and economic landscape is also shifting fast. The influence of the so-called rising powers of Brazil, Russia, and India, China and South Africa (BRICS) and others is fundamentally challenging old North–South axes in global governance. It is increasingly clear that global action on climate, health, economy, finance and related issues will depend fundamentally on the positions of these national players in global negotiations, while their own experiences in tackling poverty and building resilience at home are increasingly relevant as they emerge as significant development actors and donors, in relation to other countries in Africa, Asia and beyond. Meanwhile, countries of Europe and the USA – once pre-eminent in global aid and development systems – have experienced financial crisis and recession, and face interconnected problems of poverty and inequality themselves.

## **7. Idea of Power**

- a) Power is the ability to control or influence the minds and actions of others and affect or determine outcomes.
- b) Power (politics) and wealth (economics) are often intertwined and interact with each other.
- c) Relational power vs. Structural power
- d) Power is the capacity of an individual to influence the conduct (behavior) of others. The term "authority" is often used for power that is perceived as legitimate by the social structure. Power can be seen as evil or unjust. This sort of primitive exercise of power is historically endemic to humans; however, as social beings, the same concept is seen as good and as something inherited or given for exercising humanistic objectives that will help, move, and empower others as well. In general, it is derived by the factors of interdependence between two entities and the environment.

### ***7.1 Political Power***

An authority held by a group within a society that allows for the administration of public resources and implement policies for society. Power may be acquired as a means of governmental direction or in opposition to a government group.

## **8. Contending Theories**

### **8.1 Liberalism/Capitalism**

It is a political and economic theory that emphasizes the freedom of the autonomous individual, the system of private property and self-regulating markets, and the pursuit of individual interest. Liberalism – rooted in capitalist ideology of private ownership, minimal state regulation and intervention beyond protection of property rights. Liberalism is a political and moral philosophy based on liberty, consent of the governed, and equality before the law. Liberals espouse a wide array of views depending on their understanding of these principles, but they generally support limited government, individual rights (including civil rights and human rights), capitalism (free markets), democracy, secularism, gender equality, racial equality, internationalism, freedom of speech, freedom of the press and freedom of religion. Capitalism is an economic and political system in which a country's trade and industry are controlled by private owners for profit, rather than by the state.

- a) Emphasizes individual freedom
- b) Examples: U.S., Great Britain
- c) Laissez-Faire – philosophy claiming the economy should be left to do what it wishes

### **8.2 Marxism and Communism**

This is a political and economic theory that is influenced by the political and economic philosophy of Karl Marx and his methodology of class analysis that emphasize the system of class domination and class interest, the value of equality, and the social cooperation and social ownership based on universal humanity. Social Democracy – eliminate extremes of too much freedom, too much equality. Marxism is a theory and method of working-class self-emancipation. As a theory, it relies on a method of socioeconomic analysis that views class relations and social conflict using a materialist interpretation of historical development and takes a dialectical view of social transformation. It originates from the works of 19th-century German philosophers Karl Marx and Friedrich Engels.

- a) Accepts a role for both private property and public ownership, freedom and regulation
- b) Examples: Most European countries
- c) Communism – believes freedom only comes from total economic equality, uses the state to achieve that goal
- d) Rejects private ownership of property
- e) Nationalization – bringing private industries under state control

- f) Examples: China (though there is a massive transition ongoing), former Soviet Union

### **8.3 Mercantilism**

This is the economic theory that trade generates wealth and is stimulated by the accumulation of profitable balances, which a government should encourage by means of protectionism.

- a) This view emphasizes needs of the state to grow wealthy and powerful above the needs of society
- b) Emphasizes neither freedom nor equality
- c) Parastatals – industries nationalized based on some perceived need for international competitiveness

Examples: Japan, India, South Korea

### **8.4 Corporatism**

It refers to a theory that seeks to bring about the institutions and practices that involve a system of interest representation or a kind of state-society relationship that is controlled and regulated by the state, the requirements of the law, or the predominant social norms, and their interactions are incorporated into the formal structures of the state, monitored and guided by the state in modern society or political authority in traditional society. Corporatism, Italian corporativismo, also called corporatism, the theory and practice of organizing society into “corporations” subordinate to the state. According to corporatist theory, workers and employers would be organized into industrial and professional corporations serving as organs of political representation and controlling to a large extent the persons and activities within their jurisdiction. However, as the “corporate state” was put into effect in fascist Italy between World Wars I and II, it reflected the will of the country’s dictator, Benito Mussolini, rather than the adjusted interests of economic groups.

### **8.5 Measurements of Economic Performance**

#### **□ GDP – Gross Domestic Product**

- a) Total dollar value of all goods and services
- b) GDP per capita shows standard of living of the average person

#### **□ PPP – Purchasing Power Parity**

- a) Adjusts GDP for relative buying power in each country, since cost of living differs from place to place

## **9. Global Trends in Political Economy**

### **9.1 Globalization**



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According to this, world is increasingly interconnected due to technology and trade. Globalization or globalization is the process of interaction and integration among people, companies, and governments worldwide. As a complex and multifaceted phenomenon, globalization is considered by some as a form of capitalist expansion which entails the integration of local and national economies into a global, unregulated market economy. Globalization has grown due to advances in transportation and communication technology. With the increased global interactions comes the growth of international trade, ideas, and culture. Globalization is primarily an economic process of interaction and integration that's associated with social and cultural aspects. However, conflicts and diplomacy are also large parts of the history of globalization, and modern globalization. Globalization is the spread of products, technology, information, and jobs across national borders and cultures. In economic terms, it describes an interdependence of nations around the globe fostered through free trade. On the upside, it can raise the standard of living in poor and less developed countries by providing job opportunity, modernization, and improved access to goods and services. On the downside, it can destroy job opportunities in more developed and high-wage countries as the production of goods moves across borders.

Globalization motives are idealistic, as well as opportunistic, but the development of a global free market has benefited large corporations based in the Western world. Its impact remains mixed for workers, cultures, and small businesses around the globe, in both developed and emerging nations.

### ***9.2 Liberalization***

According to this, free markets are more prevalent than ever before in history, and developing nations often see liberalization as the key to growing wealth. Economic liberalization is the lessening of government regulations and restrictions in an economy in exchange for greater participation by private entities; the doctrine is associated with classical liberalism. Thus, liberalization in short is "the removal of controls" in order to encourage economic development. It is also closely associated with neoliberalism.

## **10. Classical political economy (Adam Smith, David Ricardo)**

We can characterize this view in this way

- a) The economy is seen as a complex natural organism
- b) Human labor is a key source of wealth
- c) Seeking balance between self-interest and cooperation

- d) “It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages. “ (The Wealth of Nations”)
- e) Division of labor
- f) Key role of the market as an integrating force
- g) Harmony of interests between classes is possible
- h) Key role of the state in maintaining a market economy

## **11. Marxist Political Economy**

We can characterize this view in this way:

- a) Market economies are social arrangements created by specific historical forces
- b) Private property is a social construct, not something created by nature
- c) Workers produce surplus value
- d) Owners of capital (capitalists) take all or most of it
- e) Accumulation of capital in the hands of capitalists
- f) Power is rooted in ownership and control of capital Impoverishment of workers
- g) Division of society into classes based on their roles in the economy and the state
- h) Struggle between classes for power – for control of the economy and the state
- i) Capitalism will inevitably collapse due to its inherent contradictions

## **12. Conclusion**

Thus we can know the preferences of political economy. We are now known about how political economy is related to economics. Here many philosophical views of politics have been discussed. These political views are so important. This discussion is so historical that’s why the discussion of political economy is so important.

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