UNIT 2: BASIC CONCEPTS

UNIT STRUCTURE

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2.1 LEARNING OBJECTIVES:

After going through this unit, you will be able to

- conceptualize the meaning of value
- understand the meaning of market and exchange
- know the concept of Gross Domestic Product
- know the concept of property through the sociological lens
- understand the concepts of money and rationality
- differentiate between Economic Growth and Economic Development.

2.2 INTRODUCTION

Economy is presented as bodies of activities which are usually carried out by members of a society in order to produce, distribute and exchange goods and services. This unit introduces the learners to the major concepts related to Economic Sociology and tries to analyse it through macro-perspective. It

deals with several ideas such as value, property, GDP, amongst others. This unit also focuses on the economic behaviour of people and traces out the meaning of the market and exchange system that operate in society.

2.3 VALUE

Value means the utility of a commodity. But the term 'value' has a quite different meaning in Economics. Value is a social, objective and historically relative category. It is social in the sense that it is determined by the overall result of the fluctuating efforts of each individual producer. It is objective because it is given, once the production of a given commodity is finished, and is thus independent of personal (or collective) valuations of customers on the market place; and it is historically relative because it changes with each important change (progress or regression). According to Adam Smith, the word value can be used in two senses, i.e., value-in-use and value-in-exchange. These are explained below.

Value-in-use:

It is the want-satisfying power of a commodity. The satisfaction which one obtains from the use of a commodity is known as the value-in-use. Use-value is a precondition for the determination of value. It does not determine its magnitude. For example, water has immense use value, because it quenches thirst and without it daily life is just impossible. The quality of water is the value-in-use of water. Though water is valuable in absolute terms we don't care much for any more because we have already got a lot. We value the marginal unit, not the mass.

Value-in-exchange:

It is the number of goods and services which we may obtain in the market in exchange for a particular thing. In other words, it is the price of particular goods at which those gooods can be sold and bought in the market. For instance, if 1 kg of rice can be obtained in exchange of 1 dozen of banana, then we may say that the value of 1 kg of rice is equal to 1 dozen of banana.

Thus, value-in-exchange depends on two things:

(i) Time:

Value-in-exchange depends on the time element. That is, with the change in time, value- in exchange for a commodity with respect to other commodities will vary.

(ii) Place:

Value-in-exchange also varies from place to place. Value-in-exchange for a particular commodity varies from one market to other markets. Hence, it varies according to time and place. Again, one commodity may have immense use value but no exchange value or vice versa. For example, water has immense use value but not exchange value. On the contrary, the diamond has a huge exchange value but no use value.

Marx's value theory is often presented as simple costs of production theory, where we add up labour value-added in the various stages of production to come up with a final value. Actually, Adam Smith's value theory was one where he tried to assess the 'contribution' of each 'factor of production' to the value of the final product. Ricardo and Marx, on the other hand, resolved the value of a commodity into concrete labour time and then examined the struggle of the classes claiming to personify the factors of production over the value produced.



CHECK YOUR PROGRESS

1. What is meant by value?
2. Who had given the division of value?
3. Mention the divisions of value.

2.4 MARKET

A market place is the most ideal place for exchange system of goods and services, particularly in agricultural societies. The market centre performs the functions as service centres, helps in increasing the socio-economic and political contacts in the surrounding area. The functions of markets largely depend upon the threshold population and the location, administrative character and road links between the market and its hinterland. The market is made up of a series of

individual exchanges which creates a functioning and ordered system. It is important to understand how markets play a role in the modern capitalist economy. It shows how the needs of people are fulfilled and how income is generated for the vendors. It helps us in understanding how the pattern of business is carried out by the market vendors. It is a system of transactions that support a self-sufficient order of small scale traders and suppliers.



CHECK YOUR PROGRESS:

4. What is the main feature of the market?
5. Name one function of the market.

2.5 EXCHANGE

An exchange takes place in a marketplace where securities, and other financial instruments are traded. The core function of an exchange is to ensure fair and orderly transaction. Economic behaviour involves the exchange of one scarce resource for another. When people engage in paid work, they exchange their scarce time, effort, and skill for income, and, when people make purchases, they exchange their scarce income for scarce goods and services. Economic activity is driven by the need to exchange. Max Weber's analysis of the exchange focuses on the one hand, on the meaning of this institution for the modern economy, and on the other hand, on the need to create political frames regulating its activity. According to Weber, exchange brings about a rationalization of the financial and economic systems based on quantification, globalization, and impersonality. Market exchanges are based on transactions, or changes in the status of a good or service between people, such as a sale.

The evolution of money as a medium of exchange had a considerable impact on the development of modern commerce, international trade, and global prosperity. Money occupies a central role in market economies because it acts as a medium of exchange. The advent of money replaced the need for an exchange through barter and enabled producers to specialize.

2.6 GROSS DOMESTIC PRODUCT

The Gross Domestic Product (GDP) is the monetary value of all goods and services produced in a country during a given time period. GDP is often used for comparison of a nation's economic progress against that of other countries. The rate of GDP growth changes depending on the health of the economy. Government leaders analyse the GDP reports when crafting economic policy. Even business leaders also analyse the economy's performance as reflected in the GDP report in order to make a decision on future investment and production.

GDP is not an all-inclusive measure. It omits some factors that impact a country's economy such as unpaid work, the environmental impact of economic activity and non-monetary considerations like the value of leisure time. Gross Domestic Product (GDP) can be considered as the broadest quantitative measure of a country's total economic activity.



CHECK YOUR PROGRESS:

6. What is meant by Gross Domestic Product?

2.7 LABOUR

Marx explains, "I use the term labour-power or capacity for labour, to denote the aggregate of those bodily and mental capabilities existing in a human being, which he exercises whenever he produces a use-value of any kind"… "The value of labour power, like that of every other commodity, is determined by the labour time necessary for the production, and consequently for the reproduction. Labour power only exists as a capacity of a living individual; its production presupposed his existence; and therefore the production of labour is dependent upon the worker's reproduction of himself, upon the worker's maintenance." Karl Marx has also refered to a distinction between abstract labour and concrete labour. While the former means human labour in general i.e. economically valuable work time, the latter means human labour as a particular activity i.e. specific useful effect.

In economically valuable work time, human labour is spent to add value to products or assets. In this sense, labour is an activity that maintains economic value which could be realized as a sum of money once labour's product is sold. For instance, if all labour is withdrawn, the value of the capital assets would deteriorate. In the other one, human labour can have a useful effect in producing particular tangible products which are used by others. In this sense, labour is an activity that creates objects with use-value i.e. tangible products (material goods). If labour produces useless products or results, it is simply a waste of labour-time. So, Marx argues that human work is an activity which has its useful effect and helps to create particular kinds of products. In an economic sense, it can create more value than there was before.

The value of labour is embodied in the product of our labour power and adds value in the process of production. The division of the working time into paid and unpaid labour is not a feature of capitalism alone. It is said that all ruling classes in history have maintained themselves by exploiting the oppressed class. But under capitalism, there is a presence of an unique feature i.e. the division of labour within the workplace which was imposed by production for the market. No worker can point to the product and say 'this is mine'. A commodity passes through the hands of hundreds of retail workers and it is the product of the collective labour of the factory hands.



CHECK YOUR PROGRESS

7. What is meant by abstract labour and concrete labour?

2.8 PROPERTY

Property may be described as the set of rights and obligations that defines the relations between individuals or groups in respect of their control over material things. The essential point in the notion of property is that there is a recognized right to control over things vested in an individual. By saying that there is a recognized right, it means that there are regular sanctions attached to it.

For centuries, philosophers had been trying to determine the origin of property. In 1884 Friedrich Engels (1820-1895) wrote "The Origin of the Family, Private Property and the State". Engels and Marx located the origin of property in the transition from hunting and gathering to agriculture. Once tribes settled onto a specific piece of land in order to farm it, the urge to claim the land and the fruits of the land evolved. The property ceased to be collective and became individual over time and began to include the domesticated animals that assisted in the process of cultivation. But people were also crucial in the planting, tending and harvesting of agriculture as it was a labour intensive process. At some point, men emerged or put themselves forward as "owners" of "property" that was theirs along with "their" animals and "their" people, including "their" wives and "their" children. The property, as land, objects, animals and people, was crucial to capitalism. The property, under capitalism, was transformed from its traditional form of land into commodities that could be purchased and owned.

Mentioned below are some of the significant characteristics of Property:

(i) Property can be transferred by its owner by way of sale, exchange or gift.

(ii) Property rights of an individual may be both tangible and intangible.

(iii) Property rights do not necessarily imply actual use and enjoyment by the owner. Law makes a distinction between ownership and possession.

iv) The possession of the property may mean possession of power over others. Money and other tangible and intangible goods bring one's good reputation and may be the bases of power.

Property can also be distinguished into common, collective and individual property. Common property is that over which several individuals have rights. They, however, hold this property collectively as against the rest of the community. The rights of sharing this property are defined by customary rules of distribution and supervised by the community. With the development and expansion of agriculture, the principle of common property is gradually given up and lead directly to the acceptance of the principle of private ownership.



CHECK YOUR PROGRESS

8. Name the book written by F.Engels to define the concept of property.

9. What is meant by Property?

10. Define money.

2.9 MONEY AND RATIONALITY

Georg Simmel's major work "The Philosophy of Money", is concerned about the social meaning of money. For Simmel, money is a part of objective culture, created through the basic form of human interaction, i.e. exchange. He considers money as a symbol and examines some of its effects on people and society. In modern society, money becomes an impersonal or objectified measure of value. This implies impersonal, rational ties among people (ties that are institutionalized in the money form). For example, relations of domination and subordination become quantitative relationships of more or less money i.e impersonal and measurable in a rational and calculated manner. The use of money distances individuals from objects and also provides a means of overcoming this distance. The use of money allows much greater flexibility for individuals in society. Modern money has features set by law and enforced by the state. These include standardization, divisibility, and legal tender status. The emergence of uniform money operating within national boundaries was a considerable political and economic achievement and didn't occur in most places until the late nineteenth century. The introduction of money into economic relationships is consequential precisely because money offers a one-dimensional measure that facilitates comparison, evaluation, and transaction.

2.10 ECONOMIC GROWTH

Growth can best be described as a process of transformation. Irrespective of whether a nation is large or small, economic growth is one of their prime goals. Right from the beginning of the development debates, it is taken as the key indicator of development. Economic growth is the long-term

expansion of a country's productive potential. It is the process by which a nation's wealth increases over time.

Economic growth indicates an increase in the country's measurable indicators, say, Gross Domestic Product (GDP). It is a total monetary value of goods and services produced in a country over a specific period of time. Economic Growth has two meanings: Firstly, growth is defined as an increase in the output that an economy produces over a period of time. The second meaning of economic growth is an increase in the production of an economy by the use of its scarce resources. Thus economic growth sustaines annual increases in an economy's real national income over a long period of time.

Rostow's Stages of Economic Growth:

Walt Whitman Rostow, the American economic historian, published an economic model known as Rostow's Stages of economic growth. This model described the transformation of countries from underdevelopment to development in terms of stages of growth. According to him, countries must pass through the following stages.

1) The traditional society
2) The transitional society
3) The take-off stage
4) The mature stage
5) The age of high mass consumption

2.11 ECONOMIC DEVELOPMENT

Development means a new stage or a changing situation. Development is expressed as something positive or desirable. When referring to a society development usually means improvement. Economic Development can be defined as the process of economic and social transformation that is based on complex cultural and environmental factors and their interactions. Earlier, the notion of development was generally based on the unidimensionality of the concept of development focusing on economic growth. Later on, it was felt that economic growth is just an indicator of development, but not the soul of it.Thus, the social scientists

and development practitioners felt that development has to be a multidimensional concept that touches various aspects of the society. It should not confine itself to the economic dimension but should have its political, cultural and social dimensions too. Its political dimension is expressed through the process of democratization, distributive justice; awareness for human rights, equity, and liberty etc., while the cultural dimension of development is distinct through the growth of the secular culture. The social dimensions of development include increased participation of people in societal affairs, development of self-reliance, better human development and environmental sustainability, etc. The outcomes of development are always positive and progressive as it is for the betterment of society. But sometimes when development outcomes are used by human beings in a negative way its consequences become disastrous. For e.g. Technological development necessarily improves human quality of life. But when people blindly use it for destructive purpose then the outcomes become sorrowful. Therefore the concept of Economic Development truly looks for the quality of life and standard of living which is essential for the welfare of a nation.



2.12 LET US SUM UP

- Value means the utility of a commodity. But the term 'value' has a different meaning in economics. According to Adam Smith, the word value can be used in two senses, i.e., value-in-use and value-in-exchange.
- The satisfaction which one obtains from the use of a commodity is known as the value-in-use. Use-value is a precondition for the determination of value whereas Value-in-exchange is the number of goods and services which we may obtain in the market in exchange for a particular thing. Value-in-exchange depends on two things, time and place.

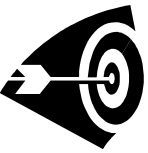
- The market is made up of a series of individual exchanges which creates a functioning and ordered system. It is important to understand how markets play a role in the modern capitalist economy. The market place is the most ideal place for exchange system of goods and services, particularly in agricultural societies.
- Max Weber's analysis of the exchange focuses on the one hand on the meaning of this institution for the modern economy, and on the other hand on the need to create political frames regulating its activity.
- Market exchanges are based on transactions, or changes in the status of a good or service between people, such as a sale. Money occupies a central role in market economies because it acts as a medium of exchange. The advent of money replaced the need for an exchange through barter and enabled producers to specialize.
- The Gross Domestic Product (GDP) is the monetary value of all goods and services produced in a country during a given time period. GDP is often used for comparison of a nation's economic progress against that of other countries. The rate of GDP growth changes depending on the economy.
- In economically valuable work time, human labour is spent to add value to products or assets. In this sense, labour is an activity that maintains economic value which could be realized as a sum of money for once labour's product is sold. For instance, if all labour is withdrawn, the value of the capital assets would deteriorate.
- The value of labour is embodied in the product of our labour power and adds value in the process of production.
- Property may be described as the set of rights and obligations that defines the relations between individuals or groups in respect of their control over material things.
- The essential point in the notion of property is that there is a recognized right to control over things vested in an individual. By saying that there is a recognized right, it means that there are regular sanctions attached to it.

- For Simmel, money is a part of objective culture, created through the basic form of human interaction, i.e. exchange, but also acquiring independence and power that transforms social relationships. He considers money as a symbol and examines some of its effects on people and society. In modern society, money becomes an impersonal or objectified measure of value.
- Economic growth indicates an increase in the country's measurable indicators like Gross Domestic Product (GDP). Economic Development means a new stage or a changing situation. Development is expressed as something positive or desirable.



2.13 FURTHER READING

- Swedberg, Richard.2003. Principles of Economic Sociology. Princeton University.



2.14 ANSWERS TO CHECK YOUR PROGRESS

Answer to Q No. : 1 Value means the utility of a commodity.

Answer to Q No. : 2 The division of value is given by Adam Smith.

Answer to Q No. : 3 The two division of value are value-in-use and value-in-exchange.

Answer to Q No. : 4 Market helps us in understanding the pattern of business which is carried out by the market vendors. It is a system of transactions that support a self-sufficient order of small scale traders and suppliers.

Answer to Q No. : 5 The function of markets largely depends upon the threshold population and the location, administrative character and road links between the market and its hinterland.

Answer to Q No. : 6 The Gross Domestic Product (GDP) is the monetary value of all goods and services produced in a nation during a given time period.

Answer to Q No. : 7 Abstract labour means human labour in general i.e. economically valuable work time, and concrete labour means human labour as a particular activity i.e. specific useful effect.

Answer to Q No. : 8 In 1884 Friedrich Engels wrote "The Origin of the Family, Private Property and the State".

Answer to Q No. : 9 Property may be described as the set of rights and obligations that defines the relations between individuals or groups in respect of their control over material things.

Answer to Q No. : 10 In simple terms, Money can be understood as a medium of exchange.



2.15 MODEL QUESTIONS

A) Short answer questions (Answer in about 150 words)

Q.1. Write short note on:

(a) Rostow's stages of economic growth.

Q.2. State the difference between economic growth and development.

B) Long answer questions (Answer each uestion within 300-500 words)

Q.1. Discuss the concept of Property. State its features.

Q.2. What is the role of GDP in Indian Economy?

Q.3. State the relationship between the market and exchange in Economic Sociology.

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