UNIT 13 : ECONOMY AND THE STATE

UNIT STRUCTURE

13.1 Learning Objectives
13.2 Introduction
13.3 Planned Economies
13.4 Welfare Systems
13.5 The State and Global Markets
13.6 Globalisation, Economy and Society
13.7 Let us sum up
13.8 Further Reading
13.9 Answers to Check Your Progress
13.10 Model Questions

13.1 LEARNING OBJECTIVES

After going through this unit, you will be able to

- understand the economic structure and management of a planned economic system.
- Know about a welfare economic system
- know the phenomenon of globalization with particular reference to its association with the polity (the state), economy and the society.

13.2 INTRODUCTION

A society functions on the basis of its ideological principles. Likewise, the various elements and institutions of the society shall operate accordingly. The economic system of a society is one of the significant pillars of a society and its functioning is guided by the ideological background of the society, owing to which the management and structure of economies may vary from society to society. Thus, while a society characterized by a centralized polity may have a planned economic system, a mixed economic system may be characterized by a liberal social setup. Further, the economic, political and cultural dynamics of a society are also shaped by various domestic and international phenomena. This process can be comprehended by the

concept of globalization, which expresses itself in multi-dimensional aspects across the world.

The following account attempts to throw light on two prominent types of economic systems, their functions and management, their political and ideological roots.

13.3 PLANNED ECONOMIES

A planned economy refers to an economy where the decisions of monetary investments and resource allocation are based on a definite economy-wide production plan. Planned economies may be found in participatory or decentralized economies, or in centralized economies, however they are often associated with economies which are characterized by state planning and centralized control and decision making. This is the primary distinction between planned and non-planned economies. Non-planned economies are characterized by a system where the market mechanism, i.e. the economic activities of production, distribution and consumption are made by the market (firms in the market), and not by the state or a centralized authority. It is due to the essential state involvement in a planned economy that it is often associated with socialist societies or socialist ideals. Here it must be noted that a planned economy need not necessarily be guided by strict socialist ideology. It is essentially the tendency of an economy to do away with the capitalist regime of market management and replace it with state-defined market rules that there is seen a point of intersection between a planned economy and a socialist society.

The concept of planned economy is also often comprehended in terms of the idea of the command economy. This is so because both share some similarities and dissimilarities in terms of their nature. As mentioned above, the planned economy involves a necessary state control in its economic activities. Similarly, the command economy also has the element of state regulation, but at the same time it also has a substantial amount of public ownership of industry and hence public has a role to play in the process of production.

Further, the planned economy is generally considered to be democratic and egalitarian in nature because of the state regularization of resources which is anticipated to result in equal and just distribution and management of resources. On the contrary, the command economy is usually perceived as necessarily authoritarian in nature because of the market regulated mechanism of economic activities.

It is important to be noted that while the planned economy is often characterized by state intervention, it must however not imply that state authority is the only form of resource ownership and management. In a planned economy, as mentioned above, resource ownership may be held through decentralized or participatory means, i.e. community ownership, or it may be owned by the people and managed through co-operatives, etc.

Several scholars, in their attempt to analyse the idea of a planned economy, have reflected on both the positive and negative aspects of it. The following account highlights some of the advantages and disadvantages of a planned economy.

Advantages of a planned economy

In a planned economy, the resources of the economy (labour, land, capital, etc) can be mobilized and utilized by the government or the state machinery with much ease. This is so because, unlike in a non-planned economy, the authority does not have to wait for accumulation of capital or monetary investments to embark on any project. This is considered to be beneficial as it gives a thrust to the developmental works.

Disadvantages of a planned economy

It is argued that since in a planned economy, the decision making process and the market are entirely handled by the state with no public intervention, therefore, it is likely that preferences, tastes and the demands of the people may not be accurately understood by the authorities. This may lead to an inefficient co-ordination between the processes of production, distribution and consumption. Further, this will inevitably lead to misallocation and hence wastage of resources.

This further brings one to the argument that decisions made from the above without taking into consideration the dynamic requirements and

interests of the people, essentially means an attack on the democratic rights and claims of the people.

Again, it is argued that in contrast to the expectation that a planned economy results in more efficient, and just resource allocation and distribution, it may lead to high handedness by authorities in terms of decision making, hence leading to inefficient economic management.

13.4 WELFARE SYSTEMS

A welfare system is defined as one where assistance is provided to the needy and deserving. In the larger political context, a welfare system is perceived in terms of a welfare state. A state is called a welfare state when the government or any other state machinery that is present there has the responsibility to ensure the wellbeing and security of its people. It must be noted that the primary characteristic of the welfare state is that the welfare of its citizens are not to be entrusted to any private entity. Any welfare system is defined by its ability to provide equal opportunities to its people, equal distribution of wealth and resources, thereby taking the responsibility of the weaker sections of the society.

The welfare state functions by redistributing the taxes received by the state into various state services provided to the citizens. The redistribution or transfer of monetary assistance may be either to the services and the agencies handling them, or to the citizens directly.

In the present day the forms of welfare services provided by the state vary from that of the past. Earlier, welfare services were essentially in terms of poverty reduction measures. However, in the modern day welfare services may cover a wide range of aspects like health, education, career opportunities, etc and not necessarily be of the nature of providing food, cloth and shelter.

The idea of a welfare state has been closely studied by several scholars and has been subject to severe criticism.

A common argument against the welfare model is that it is likely to become counter-productive. It is argued that incentives and other benefits

may make people unproductive and their tendency to work may reduce due to the easy inflow of the necessities.

A Marxian criticism to the idea of welfare provisions is that such provisions are to be merely considered as bribes. According to this view, those incentives are an attempt to weaken the revolutionary tendencies and consciousness of the masses.

Yet another argument against the welfare system is that the management and maintenance of such a system requires a large and qualified bureaucratic set-up, which in turn demands a huge monetary expense, which in turn shall raise the burden on the tax-payers.

13.5 THE STATE AND GLOBAL MARKETS

The state can be defined as a body consisting of various institutions which collectively exercise authority and control over a particular territory and the people residing there. The institution of state has been subject to several discussions. Broadly, the idea of the state can be comprehended in terms of three prominent schools of thought which have analysed the entity of the state.

1. **Anarchism:** The Oxford dictionary defines anarchy as a state of lawlessness and organized control. Anarchism as a political philosophy provides a negative light on the state by arguing that it is not an essentiality. Rather, according to anarchists, the state functions in a manner which can be considered to be harmful and which may in fact lead to a situation of statelessness. According to this view, the state is an institution which imposes, dominates and represses the people. They believe in abolishing the idea of state and state control.
2. **Marxism:** According to the Marxist view, the state is an institution which is handled and controlled by a few ruling elite either by exerting pressure on the state machinery or by means of manipulation of the state agencies or representatives. It implies that the state stands in a position which inherently becomes an institution representing and

fulfilling the interests of the ruling class. Karl Marx and Frederick Engels call it a 'committee for managing the common affairs of the bourgeoisie' in the "Manifesto of the Communist Party". The Marxists therefore seek to abolish the state.

3. **Pluralism:** The Pluralist school of thought believes that the state acts in accordance with the interests and ideology of the ruling class. However, unlike the Marxists, they believe that power is coveted for by all individuals and groups. In the competition for power, whoever wins the race, the state inherently becomes a body which functions at the behest of the powerful. Thus, this view does not perceive the state itself as a biased body. Rather the state is seen as a body which is molded and manipulated in terms of its functions by the powerful ruling class.

The state vis a vis the global market is being increasingly studied. The inter-relationship between the two has gained attention of the scholarly discourses more so in the context of the globalised world. The growth of the global market, it is argued, has led to the gradual decline of the role and importance of the state. The rise of global markets has made the national territorial boundaries porous. This has further led to the easy inflow and outflow of goods and services. It is a result of the relaxation of rules and regulations, tariff regulations, trade guidelines, etc. This implies that in a global open market condition, the regulation and flow of trade requires very little state intervention. Consequently, the state has lost the significance it earlier had. Simultaneously, it has been seen that the role of the state has been replaced by the global bodies like multinational companies, firms, etc. The consequences of these processes have not only been seen in the economic sector, but have also been widespread in the social and the cultural spheres. The easy access to products from around the globe has led to a greater cultural mix, in terms of food, clothes, ideologies, etc.

Yet another view holds a contrary perception about the state and global market relationship. According to this view, the rise and spread of the global market is not possible without the support of the state. Instead, it is argued, that in the context of a globalised world, the state acquires an international character. This phenomenon, referred to as the internationalization of the state, acts as a bridge between the domestic economic dynamics and the global scenario. In this process, it has been seen that those states which are able to grasp the domestic and the international scenario better while simultaneously co-coordinating with the domestic consumers efficiently, are likely to benefit more from the globalised economy. It further argues that, unlike stated above, it is the state and not the global organizations like multinational companies which play a significant role in the global economic context. However, the role and importance of the various governments may vary. This has further led to uneven power positions for different countries, which may in turn lead to a politics of power and influence whereby the powerful countries may spread themselves across the globe through economic, social and cultural hegemony.

13.6 GLOBALISATION, ECONOMY AND SOCIETY

Globalisation can be defined as the process by which the world tends to become closer where the boundaries tend to fade in importance. It entails a growing interaction amongst people, irrespective of their geographical and cultural identities, by the means of transaction of goods and services, food, clothes, etc. The concept of globalization has gained wider connotations over time, with its increasing identification with various other aspects like climate, pollution, resource management, etc. Initially, ideas of globalisation were being discussed during the 1960s and 1970s. However, globalisation became an issue of popular interest and analysis only in the 1990s. The International Monetary Fund, in 2000, stated that globalization can be identified with four basic aspects: trade and transaction, migration and other kinds of

movement of people, capital and investment flow, and the transmission of knowledge. The scholarly attempt to comprehend the idea of globalization is primarily through the three major aspects of globalization, which are classified as economic globalization, cultural globalization and political globalization. The cultural and the political aspects of globalization can be subsumed and explained under the social aspects of globalization.

Economic globalisation

Economic globalization refers to the growing interconnectedness and the interdependence amongst not only the various national domestic economies with each other but also with the world economic order. This can be seen in the rapid growth of movement of goods and services, capital, investments, technology, etc amongst and within the countries in the world. It must be noted here that economic globalization should not be identified merely with globalization of business which includes the diminishing trade barriers, reducing tariffs, etc. Rather, economic globalization is a broader concept which refers to the idea of the global economic integration manifested through a single and unified global market system. At present, economic globalization is largely characterized by the integration of the developed economies with the developing ones, primarily carried out through the means of foreign direct investment.

There are some significant indicators of the manifestation of economic globalization, listed below.

International organization for standardization: It is an international organization meant for the purpose of standard setting. It consists of representatives from multiple national level standard setting organizations. Multinational Corporation (MNC): A MNC is an international organization that has presence in multiple countries where it carries out production of goods and services.

Free-trade area: It refers to a defined area which is identified as a trading unit or bloc. The countries belonging to that bloc are signatory of a free-trade agreement, which signifies free and easy trade relations amongst the member countries characterised by lower trade barriers.

Business Process Outsourcing: It entails the process of outsourcing of skills, knowledge and labour from one country to another.

Social aspects of globalization

1. Globalisation and culture: Culture has seen drastic transformations with the rise of the globalised world. Its effects can be seen in the movement of ideas, ideologies, values, across the world. The significant role in the diffusion of culture has been played by primarily the media, internet and also increasing international tourism across the world. As a result there can be seen growing social relations and interconnectedness across geographical, racial, political boundaries. Some of the important elements which can be considered as strong agents of cultural globalization are listed below.

   Religion: Religion has been spread widely since early times through various factors like migration, colonialism, trade, etc.

   Sports: Sports acts as an important factor of connectivity and participation. For example, the Olympics, cricket and football matches are popular sports which bring together people from various backgrounds to a common ground as the audience.

   Music: Music acts as a great harbinger of connectivity and love amongst people. At present it can be seen that different music genres from different countries are widespread all across the world.

   Cultural globalization has also been subject to scholarly criticism. It is argued that there is a high likelihood that through cultural globalization the culture of a powerful country may dominate that of a less powerful country, which may eventually be a threat to the growth and sustenance of the latter. Further, it is also argued that the global availability of goods, irrespective of their native place of origin, may also lead to a reduction in the quality of or the specialty of those goods.

2. Political Globalisation: A discussion on political globalization entails the state as the most important entity, which has been highlighted

above. Further, there are elements which are often emphasized in the context of a politically globalised world.

Inter-governmentalism: The idea of inter-governmentalism is expressed in two distinct ways. While one of the views states that it can be comprehended as a theory of integration of various regions, the other argues that the governments (both state and national) are the significant pillars of integration.

Multi-level governance: This term, as the name suggests, argues that in a politically globalised world there are multiple structures of authority which are interlinked to each other at different levels.

Multiple citizenship: It refers to the phenomenon whereby a person legitimately holds the citizenship of more than one state simultaneously.

The phenomenon of globalization has been subject to several scholarly discourses, which have expressed both the pros and cons of globalization. The above account has mostly dealt with the positive aspects of it. Here, the criticisms against globalization shall be highlighted.

Globalisation is considered by many as harmful to the society because of the dominating and over empowering tendencies that it has. This is manifested through cultural domination, superiority of the powerful and the rich over the others, etc.

Further, it is also seen that the growing contact amongst people due to globalization may lead to xenophobia (fear of the foreign/other). This may be manifested through identity crisis, hostility amongst different communities, etc.

Another argument against globalization is that while the economic indicators like GDP may highlight the boosting economic aspects, but the actual social and cultural aspects are not represented by such indicators. Therefore, to understand the consequences of globalization in the routine life of individuals it is essential to measure globalization through social indicators like happiness, security, peace, etc.

Thus the above account clearly states that globalization as a worldwide phenomenon has to be analyzed in terms of both its pros and cons.



CHECK YOUR PROGRESS

1. Mention one criticism of a welfare system.
2. Define state.
3. Mention one criticism of globalization.



13.7 LET US SUM UP

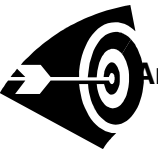
- A planned economic system is characterized by an essential state regulation whereby the economic decisions and activities are carried out based on a defined plan. It may be a feature of a centralized or a decentralized society.
- The nature of a state or an authority may be welfare oriented which means that it makes provisions for free or subsidized goods and services for its citizens. The welfare provisions may manifest themselves in different forms in different societies.
- Globalisation is the process whereby the world becomes connected and closer through growing interactions and communication amongst peoples, cultures, nations. It has three predominant dimensions: the economic, cultural and the political.
- The social aspects of globalization can be comprehended by its political and cultural dynamics. The political aspect can be explained primarily through the role of the state in the globalised world.



13.8 FURTHER READING

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13.9 ANSWERS TO CHECK YOUR PROGRESS



Ans to QNo1: It is argued that the management and maintenance of a welfare system requires a large and qualified bureaucratic set-up, which in turn demands a huge monetary expense, which in turn shall raise the burden on the tax-payers.

Ans to Q No2: The state can be defined as a body consisting of various institutions which collectively exercise authority and control over a particular territory and the people residing there.

Ans to No 3: It is argued that in a globalised world, while the economic indicators like GDP may highlight the boosting economic aspects, but the actual social and cultural aspects are not represented by such indicators.



13.10 MODEL QUESTIONS

(A) **Short Questions** (Answer within 150 words)

Q1. What is a planned economy?

Q2. What is a welfare state?

Q3. What are the three main aspects of globalization?

(B) **Long Questions** (Answer within 300-500 words)

Q1. What are the advantages and disadvantages of a planned economy?

Q2. Explain the role of the state in the contemporary globalised world.

Q3. Highlight the economic and cultural dimensions of globalization.



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