

Marxism and economic liberalism a comparison politics essay



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It is the cause of trade that the science of economics existed, although both are the two sides of the same coin and their effect on the nation's relations as well as their direct impact on the people can't be overlooked. It was also said since the existence of trading it was fundamentally international and we can't be basically engaged with trading if it was not open to the outside world. Fundamentally speaking, trading can be categorized as internal or international trading, the first said to happen with the boundaries of the state whereas the latter go beyond the boundaries of the state either between two countries or more which also includes the total sum of trading and the exchange of monies, goods and services. It is therefore, may be said, that there are two major theories that governs the international trade or political economy. First, the freedom of trade and industry as a general rule, although there might be some exceptions, but these exceptions do not make international trade a license or trade monopoly of that nation only. But the state perform as a guarantor or protector to those traders from its nationals who trade with other nations by finding or creating corporations or institutions, their main tasks is to prosper the state's trade and propose the necessary guarantees towards the political, monetary and commercial risks.

Some time the state allow trading companies to use the country's official
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label on some national products especially those agriculture products, as a mark to its quality and to promote and attract foreign investment to invest in those product and the whole sector thereafter. United state, Japan and the European Union are the world leaders in this regard. International trading in these countries is under the guardianship and supervision of the state, in terms of which products are allowed to be imported and those products that are not allowed to be imported, at the same time, the state (s) made regulations for some products to have proper licenses for the foreign trade transactions to be made. However, nowadays, the restrictions are declining and the countries are leaning towards easing some of these restrictions to promote the balanced international free trade.

Marxism and Economic Liberalism – comparison

Marxism and Economic Liberalism as commercial policies were questioned by Smith as to whether they would increase or decrease the wealth of a nation. Smith proposed the following criterion in support of free trade rather than protectionism.[1]

High tariffs created domestic monopolies resulting in higher prices leading to sloth, mismanagement and a failure to innovate.

The most efficient allocation of resources was attained by self-interested individuals acting on their own behalves.

Opportunity costs as to resource constraints meant that protecting one sector of industry from cheaper outside competition would distort resource allocations thus increasing production costs to another sector already efficient and competitive.

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The second theory was the formerly known Soviet Union Economic Theory or what is known to be as the Marxism, whereby the state was solely monopolizes the trade and exercises it through public institutions founded within municipal departments inside the state that has independent character for the trade to be one source from the total resources of state whole production, to fulfill the state's economic plan.

In the Marxist approach the economy is a site of exploitation between social classes, especially the bourgeoisie and the proletariat. Politics is to a large extent determined by the socio-economic context. Economic liberalism is the dominant perspective today due to the end of the Cold War, the influence of free-market capitalism, and globalization. However, the following specifies the major differences between the two international political theories[2]:

Free Trade or Economic Liberalism:

Liberalism as a coherent social philosophy dates from the late 18th century. At first there was no distinction between political and economic liberalism (economics was not considered a separate discipline until about 1850).

Classic liberal political philosophy has continued to develop – after 1900 as a purely conservative philosophy.[3]

Whereas, Economic liberalism emerged as a set of criticisms of mercantilism, understood as the comprehensive political control and regulation of economic affairs which dominated European state-building in the 16th and 17th centuries. Economic liberals reject theories and policies which subordinate economics to politics. Adam Smith was the father of economic liberalism. He believed that markets tend to expand spontaneously for the <https://assignbuster.com/marxism-and-economic-liberalism-a-comparison-politics-essay/>

satisfaction of human needs, provided that governments do not interfere too much.

Economic liberals assume that economic policies should increase people's prosperity. They favored specialization to achieve comparative advantage, free trade, and free markets. Since the 1980s, the global economy has witnessed its renewed dominance.

Today's neoliberal economists see a greater role for economic institutions than did classical economic liberals.[4]

An important liberal economic concept is that of comparative advantage. The law of comparative advantage was developed by David Ricardo. He argued that free trade – commercial activities that are carried out independently of national borders – will bring benefits to all participants because free trade makes specialization possible, and specialization increases efficiency and thus productivity.

Paul Samuelson summarized the argument for free trade as follows: 'Whether or not one of two regions is absolutely more efficient in the production of every good than is the other, if each specializes in the product in which it has a comparative advantage (greatest relative efficiency) trade will be mutually profitable to both regions'.[5] According to this logic, in a world economy based on free trade all countries will benefit through specialization and global wealth will increase.

Marxism

Marxist political economy, in contrast, starts from relations between people and classes, and tries to understand the economy not as a perfect clockwork mechanism but as a dynamic system full of contradictions and doomed to be replaced. Marx did not begin from scratch: he started from the insights of “classical” political economy – a school of thought that the early capitalists gave birth to, as a means of advocating the new system against the defenders of feudalism.[6]

Marxism sees history evolving through class conflict and revolution in which inequality is progressively eliminated. It achieved great influence after the Russian Revolution but has become less significant since the end of the Cold War.

Today the only countries that call themselves Marxist are China, North Korea, Laos, Vietnam, and Cuba.

Marxian economics remain influential in analyses of underdevelopment.[7]

Marxism then has had a significant effect on the world of international relations. Whilst it is fair to say it is not as popular approach as realism or liberalism, it is perhaps the foremost critical response to these long-standing theories. The key ideas of Marxist thought, based in a questioning of what appears at first to be self-evident, is an indispensable tool to any study, let alone to one based so strongly on subjectivity as politics. It is also crucial in a world dominated by capitalism that we strive to look beyond it wherever possible; capitalism is not the be all and end all of political and economic systems even if it does set itself up to be so. Key thinkers such as Cox and Wallerstein have expanded on the basic ideas of Marx and as such made the <https://assignbuster.com/marxism-and-economic-liberalism-a-comparison-politics-essay/>

theory far more applicable to the field of international relations, showing the importance of economics and social trends in state relations rather than the narrower view supported by other theories. Fundamentally, the leading role of the state has been challenged by Marxist authors, and here is where it looks like the approach will bear most fruit[8]. The modern world is a dynamic system where the historical power of the state appears to be subsiding in favour of global social movements and inter-state organisations such as the IMF and World Bank. The Marxist approach offers some of the best accounts of both these new sources of power, and no study of international relations would be completely without at least considering what a Marxist approach has to say about them.

Different countries in different times has seen many political drifts throughout the history of mankind. Most of the time all of these drifts had the same ideas and goals but they tended to offer different methods of their success. All were mainly intended and focused at the wealth of the public but few of them managed to lead this or that nation to happiness. Liberalism and Marxism are among those political philosophies that have become popular in some countries as the principal forms of political principles. These movements are characteristic of relatively different attitude towards the role of government and political movements in the state. In order to answer the asked question in the beginning of this paper, we shall answer the following question: what are the differences of liberalism and Marxism and which tendency is more relevant nowadays?

It is to be noted however, that the liberalism principles have been so popular in many countries around the world. “ Liberalist theorists claim that the <https://assignbuster.com/marxism-and-economic-liberalism-a-comparison-politics-essay/>

government should play the most possible minimal role in life of the society". As liberalism evolved and during its development, its supporters had to face different allegations or accusations in leaving the public to the "mercy of fate" and due to various circumstances; some liberals had to change their prospects. Therefore, there appeared different trends among liberal adherents. "Theorists of classical liberalism hang on to the idea that in any state individual freedom should be encouraged. The state should limit its regulation of business and economy and it should be assigned by state constitution. Individual property rights, defense of civil liberties and support of free markets are the guarantee of the successful development of a liberal state. In contrast to classical liberals social ones insist on more intensive governmental regulation of economy, creation of state enterprises and welfare state. Social liberal theorists stand for creation of so-called positive liberty for people which will give them more opportunities, for example health care, education, material assistance (Richardson 263)."

While comparing the above state intervention to the life of society with the Marxist approach we immediately and clearly can realize their differences "they are opposed". Marxist main idea as stated is the following: the state plays the leading role in the life of people at the same time the state is the only authority who can lead the society and provide it with welfare. In The Communist Manifesto (1848)[9], Marx and Engels argued that the means of production determines the very nature of society. This is the linear idea of the base-superstructure relationship: The economy is the base of all social structure, including institutions and ideas. In capitalistic systems, profit drives production and thus dominates labor. Working-class groups are

oppressed by the group (in power) who benefit from profit. All institutions that perpetuate domination within a capitalistic society arise from this economic system. Only when the working class rises against the dominant groups can the liberation of the worker be achieved.

Such liberation furthers the natural progression of history in which forces in opposition clash in a dialectic that results in a higher social order. This classical theory is called the critique of political economy. Think of the recent financial crises in Malaysia, Japan, Russian, and Latin America, thanks to the rapid (uncontrolled) movement of money.

Marxist-based critical theory thrives today. Not all adherents to Critical Theory are strictly Marxist however. The basic ideas of dialectical conflict, domination, and oppression remain important. Much contemporary critical theory views social processes as over-determined, as opposed to Marx's simple base-superstructure model. They see social structure as a system in which numerous elements interact with one another. A number of approaches to Marxist communication theory can be taken. They all focus on two kinds of problems.

As clearly stated above, both of the theories (liberalist and Marxist theorists) have different approaches to the state role in the life of the society. I believe, with what is seen now a days of modern development of countries, liberalism is the best fit political trend with all of its forms, but with more transparency from the politically and financially dominant countries like the United State, who is monopolizing the international authorities especially the financial bodies (IMF, world bank) to their interests. Today in many countries,

especially in the undeveloped world, the right of individuals are exercised and can be seen interims of individuals rights to own property in equal way with the freedom of choice.

The Current Financial Crisis

The financial crisis of September 2008 probably surprised the conventional economists of ‘benign globalisation’[10]. However, it was expected and been anticipated by many economists (without having predicted its actual date), simply because for those who were predicting it was due to the natural development of the long crisis of late capitalism set in motion in the 1970s.

To get a better picture of the current crisis, It is important to take a look back and revisit the first long crisis of capitalism, which shaped the 20th century, as there is such a striking parallel between the developmental stages of these two crises.[11]

In 1873 of the nineteenth century the crisis of the industrial capitalism evolved. At the time profits levels collapsed, for reasons made clear by Marx. In its turn Capital reacted with a double move, by becoming more concentrated and expanding globally. Creating new monopolies seized profits at the highest possible value, derived from the exploitation of labour. They accelerated the colonial conquest of the planet. These structural transformations allowed profits to take off anew.

In recent history, the crisis of capitalism took off in the 1971, when the dollar value went off the Gold Standard. To the same extent this effect of the 1873 crisis took place in the same terms of shrunken Profit , investment and
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growth levels collapsed again and had never recover their earlier levels between the years of 1956 and 1975. In its terns, Capital here responded as it did in the previous crisis, with a double move both to concentration and to globalisation. It also put in place structures which were to define the second ‘ Belle Époque’ (1990-2008) of financialised globalisation, permitting the oligopolistic groups to take their monopolistic dividend. The same discourse accompanied these moves: the ‘ market’ guarantees prosperity, democracy and peace; this is the ‘ end of history’. The same rallying of European socialists to the new liberalism. However, this new ‘ Belle Époque’ was accompanied from the beginning by war, of the North against the South, starting in the 1990s. And as the first financialised globalisation gave rise to 1929, the second led to 2008. We have now arrived at the crucial moment which heralds a probable new wave of ‘ wars and revolutions’. And this despite the fact that the powers that be envisage nothing other than the restoration of the system as it was before its financial collapse.[12]

As revealed by the crisis over the capitalist system, the current crisis showed a defect in the global capitalist system, where it was previously based on the commercial capital, and then turning to industrial capitalism, and has now shifted to financial capitalism. The fallback of the role of the institutions of the real economy whereby banks, large financial institutions, stock and bond markets played a major role in maximizing wealth, to an extent whereby the volume of world production of goods and services estimated to 48 trillion dollars compared to 144 trillion dollars the amount of money circulating in the financial markets.

In the absence of the proper monitoring mechanisms for financial institutions, this crisis rocked the holiest of holies of capitalist (the lack of state intervention in economic activity).

The crisis also brought to surface another problem, the problem of the international financial system, it is necessary in this regard to identify the nature of this system and identify the underlying mechanisms of its association with the dollar:

Before 1914 the international monetary system was based on gold (the gold system) and the exchange rates of currencies against each other was based on content of gold behind each of them. Therefore, gold played a prominent role in self-regulation of the economic conditions of the countries and therefore to restrict the volume of money and stabilization in the value of currency.

Between the period of 1914 – 1929 and due to the impact of the global economic crisis at the time when World War I disrupted the economic conditions in the monetary and financial world at large, global changes have taken place and the gold system was no longer appropriate to that era circumstances, and the result was, most countries abandoned the gold standard being utilized.

In 1944 the International Monetary Fund was created under the Bretton Woods Convention whereby a new monetary system was introduced which was known as the (exchange in gold) which was based on the U. S. dollar exchange for gold at a price of \$ 35 per ounce at the rate of \$ 1 per 0.

888671 grams of gold, and accordingly, the Central bank in America was <https://assignbuster.com/marxism-and-economic-liberalism-a-comparison-politics-essay/>

committed to convert dollars into gold on this basis and according to the price advertised.

the enormous potential of the United States of America in international trade and material resources available to it enabled them to undertake this role, the U. S. Central Bank took it upon itself to maintain the exchange rate of its currency against other currencies for the purchases and sales to the same price as advertised.

Therefore, other countries had to use the dollar in their official reserves alongside the gold and thus the Bretton Woods Agreement has added a unique feature to the dollar and made it the only currency to have a balanced price against gold. America at the time took advantage of its influential role in international trade, particularly with the massive gold reserves they maintain, making it in fact a rival to the International Monetary Fund and the role of the Fund has become a supplementary to the United State.

Now a days the dollar is an important component of international liquidity next to gold, and maintained by most countries. Hence, and as a consequence to this situation, it became the duty of others, in particular the European Economic Community to defend the dollar exchange rates, and therefore made the United States to act on fluctuation of exchange rates from the site of the unconcern.

Since 1971 and because of the shortage suffered by the U. S. balance of payments and the large decline in U. S. reserves of gold due to its replacement, the ability to exchange dollar with gold was stopped.

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Dollar began to experience sharp fluctuations in its value and thus emerged a new international scheme based on the currency floating. Following the new style of floating currencies, the turmoil emerged in the international monetary system and started a massive fluctuations in many currencies including the dollar itself, which resulted in redistribution of income and wealth at the international level for the benefit of rich countries.

Americans logic and believe that the U. S. economic recovery should be borne by the international community, particularly the European Union, because according to the American perspective, the revitalization of their economy will inevitably lead to revitalization of the economies of these countries, which means that these countries are countries in support of the actions of America.

How can we come out of the current international financial crisis:

To be able to come out of the current crisis countries must be able to restore confidence in the financial markets, first through the intervention of governments and central banks to ensure the availability of liquidity to the banking system, and then work on an international level to resolve the crisis. Whereby the crisis has revealed the interdependence of the global economy as a whole it is therefore every state responsibility to come out of the crisis to work together on condensing international efforts to re- investigate the current international monetary system, to give all countries full economic freedom and political right to choose to link their currencies to a basket of currencies to be agreed upon internationally.

It is all countries responsibility to work on the repair of work mechanisms in the institutions of the International Monetary Fund and the World Bank and to reform the foundations created these institutions to reduce America's hegemony on it. Work on the treatment and issues of financial control of the financial institutions through the management and supervision of international regulatory bodies by independent and fully transparent bodies. And finally, find a better management of international liquidity and stop the reliance on the dollar and the adoption of the special drawing rights with the composition of international reserves.

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