

POWER/KNOWLEDGE AND ECONOMIC THEORIES

Abstract:

It is widely believed that human knowledge represents valuable information about the world we live in. Historical studies of Michel Foucault led to the striking conclusion that human knowledge cannot be separated from the power configurations governing society. In this paper, we study how economic theories are shaped by socio-political power.

Introduction

Epistemology is a branch of philosophy that investigates the origin, nature, methods, and limits of human knowledge. Currently dominant conceptions of knowledge define knowledge as “True, Justified, Belief.” Without going into the complex details, we focus on the basic idea that knowledge is “true”. Suppose we wish to evaluate a sentence such as: “Electricity generated by the Kalabagh dam would be worth 3 billion Rupees per year at current prices.” Then we would look at engineering specifications of the proposed dam, relevant water flow data, and energy prices. If these technical details add up, then the sentence would be considered “true” and would be added to our knowledge. If data on water flows, energy generation capacities and prices of electricity lead to figures like 1 billion or 6 billion, then the sentence would be considered false, and we would not add it to our knowledge base. The following questions may be interesting, but they are not relevant to the evaluation of whether or not this sentence represents knowledge:

1. Who made this claim about the dam? Who was he talking to?
2. In what context did this conversation take place? Why was it said?
3. What will be the consequences to Pakistan, and to the speaker, if the sentence is accepted as true?

Post-modern philosophers dispute this idea of knowledge. Many earlier philosophers have noted the relationship between theories propounded and the interests of the proposer. For instance, Karl Marx argued that different classes adopt different economic theories which align with their economic interests. Among modern philosophers, Michel Foucault (1980) took this idea to a radical extreme. He argues that modern human sciences (biological, psychological, social) purport to

offer universal scientific truths about human nature that are, in fact, often mere expressions of ethical and political commitments of a particular society. On deeper analysis, what passes for knowledge, and is stated as a universal scientific truth, is actually a defense of existing power configurations. On initial encounter, this is a startling claim. Our goal in this article is to make it more plausible by studying some examples of economic theories and their relations to power interests. But first we give an example to more clearly illustrate the nature of our argument.

According to the Knowledge=Truth theory, the statement that “VAT Taxes will benefit Pakistan” should be evaluated by economic arguments regarding amount of revenue generated and costs and benefits to the economy of Pakistan. However, the Knowledge=Power theory states that if the interests of multinationals and powerful elites are served by acceptance of this sentence, then it will be accepted as knowledge. On the other hand, if it does not serve power interests, it will be rejected as invalid. If the post-modernists are right, than questions 1-3 posed above, as well as a host of other questions, become very crucial to epistemology. In this essay, we will study the relation between certain economic theories and the interests of power groups within society.

Poverty

In traditional societies, poverty was accepted as a natural phenomenon. The Bible states that “The poor you will always have with you.” Karl Marx’s famous dictum that “Religion is the opium of the masses” refers to this state of affairs. He argued that religion serves the interests of the powerful by reconciling the poor to their lot, instead of revolting against the rich to capture a greater share of the pie.

There are numerous recorded instances where the poor did revolt against exploitation by the rich. The French revolution was the most important of these events, which permanently changed conceptions of poverty and attitudes towards the poor. The desperation of the excessively exploited poor led to the overthrow of the established aristocracy and the formation of peoples’ government; for more details, see for example, Forrest (1981). The changed power configurations led to the emergence of new ideas about the nature of poverty. It became clear to powerful aristocrats and landowners that more rights for the poor supported the long-term interests of the rich by reducing the chances of a revolution. In this favorable atmosphere, slogans of “Liberty, Fraternity and Equality,” and progressive ideas of Enlightenment thinkers like Godwin and Condorcet led to substantial popular support for social programmes to improve the lives of the poor.

Across the channel, these ideas were threats to the power of the English aristocracy. It was necessary to come up with an alternative stance regarding the poor, in order to protect the interests of the powerful, and prevent them from having to make too many concessions to the poor. Necessity is the mother of invention, and Malthus fabricated the desired theory in his famous “Essay on Population.” Working entirely from his imagination, without any support from facts or statistics, he argued that the

main reason for poverty, vice, and misery was the high population growth rate of the poor. Schemes to help the poor would be counterproductive because giving the poor more food would only lead them to reproduce faster, creating even more poor. By putting the blame for poverty on the poor, he diverted attention from the responsibility of the rich to provide welfare and social programmes to help the poor.

This example is an interesting test case to compare the two theories of knowledge discussed at the outset of this article. Even now, it is widely believed that Malthus was right. However, on comparison with facts, we find that all of the quantitative elements of Malthusian arguments have proven to be false. For example, on the basis of his calculations showing that population would outstrip food supplies, Malthus argued that the island of Britain could not sustain a population of more than 20 million. However, 150 years later the population was more than triple Malthus' ceiling. Also, Nobel Prize winner Amartya Sen has shown that supplies of food per capita have been increasing slightly for centuries, contradicting a key Malthusian assumption. Even more striking is Sen's (1981) demonstration that famines are not caused by food shortages. Thus the idea of knowledge as truth does not fit the Malthusian theories on population; this is again conflicts with Malthusian theories. Widespread belief and acceptance of Malthus reflects the power of the English elite, whose interests were well served by these theories. Initiatives for social programmes to help the poor were curtailed or dropped by the English parliament, resulting in a budget saving for the rich. It was also widely observed, with approval, that worse conditions for the poor led to a more docile labor force, willing to work for less in poor conditions, for lack of alternatives.

Communism

The idea that human knowledge represents configurations of power receives substantial support when we look at situations where power configurations changed. In the twentieth century, the Russian revolution was a dramatic change in configurations of power, both within Russia and also globally. The theory of Communism as developed by Marx stated that Capitalist societies would over-exploit labourers, which would eventually lead to a communist revolution. Peasant agrarian societies like Russia were supposed to first transition to capitalism, and then later on to communism. Thus the Russian revolution in some ways contradicted Marx's theories about how economic systems changed. The Russians revised the theory to align with their experience of having by and large skipped the capitalist stage of development.

The battle between capitalism and communism was reflected by the intellectual debates about the relative merits of planned economies versus free market economies. Russia was the only successful example of a transition from an agrarian economy to an industrial economy at the time. The capitalist economies feared that agrarian societies all over the world would seek to emulate Russia and turn communist. The theory of Development Economics was developed as the capitalist answer to this threat. It provided theoretical answers to how economies could

develop within a capitalist economic structure. These theories reduced the complex process of economic growth to capital accumulation. They argued that poor growth due to low savings could be accelerated by foreign aid. Although the results of these strategies were very poor, these theories were very conveniently tied to the interests of the elite ruling classes in the developing countries. As has been documented by many sources, the lending countries themselves as well as military and civil ruling classes in the borrowing countries were the beneficiaries of these foreign aid policies, which only increase tax burdens on the populace which repaid these loans, without gaining any benefits from them. Yet these strategies continue to form the foundations of development economics and policies in the form of World Bank loans and foreign investment (FDI).

In the 20th century, Mao's revolution which brought Communism to China, was a major upset to dominant power configurations. The CIA was called to the carpet for its failure to anticipate and frustrate this anti-capitalist phenomenon. They explained that this revolution was based in rural areas, while the CIA had presence only in the urban areas. Older readers will remember the extensive Village Aid programme in Pakistan. Similar programmes were launched all over the world to gather information, and generally prevent unrest and revolutions in rural areas. Thus theories of rural development entered the discourse of development economists not as a result of discovery of new facts about the real world, but as a result of shifting power configurations. Furthermore, these programmes were dismantled when it became clear that unlike Russia, China did not plan to export its revolution. Decline in academic studies of rural development in the present era corresponds to this loss of funding, rather than any factual changes in the world, providing further support for the idea that knowledge represents power interests.

Development Economics

The prescriptions of Development Economics were applied to generate growth in Pakistan in the 60's by a group of expert economists from Harvard. As already discussed, these theories focus on the accumulation of capital, rather than lives of human beings. Pakistani economist Mahbubul-Haq saw through the mathematical formulations to the heart of the strategy proposed for growth. He wrote: "It is well to recognize that economic growth is a brutal, sordid process. There are no short cuts to it. The essence of it lies in making the labourer produce more than he is allowed to consume for his immediate needs, and to reinvest the surplus thus obtained." Despite this clear recognition, he thought that exploiting the poor was necessary to create growth, which would bring long-term benefit to all. Much to his credit, he renounced his earlier views when he saw the bad effects of these economic policies. As the Power/Knowledge theory predicts, these theories were accepted and adopted not because they were true, but because they served the interests of the rich. Mahbubul Haq noted that wealth became concentrated (in the hands of 22 families) and did not "trickle-down." He wrote that "we were told to take care of our GNP as that would take care of poverty – let us reverse this and take care of poverty as this will take care of our GNP."

One might think that the learning acquired from experience would translate into practice. This accords with the idea that knowledge is “true” and is acquired by rejection of false theories. However the knowledge acquired by Mahbubul-Haq at such great cost to the Pakistani public was promptly forgotten. Mahbubul-Haq went back to the World Bank, and Pakistani governments, military and civil alike, continued to concentrate on programmes favoring accumulation of capital by the wealthy at the expense of the public. Only lip service was paid to key initiatives like achieving universal literacy or self reliance, which are a prerequisite for economic growth of any kind.

Free Trade

John Kenneth Galbraith writes “The modern conservative is engaged in one of man's oldest exercises in moral philosophy; that is, the search for a superior moral justification for selfishness.” The Invisible Hand of Adam Smith is an illustration of this idea – selfish behavior by individuals leads to the best outcomes for society. This is at the heart of mainstream economic theory, which propagates as a core belief the idea of “Laissez-Faire”: let everybody do what they please, and the best social outcomes will result. Superficially, “Laissez-Faire” or no interference in markets seems like a fair and equitable philosophy – let everyone do whatever they want. In fact, it is highly inequitable; the poor don't have choices, while the rich and powerful take advantage of this liberty to extract money from the less rich.

The economic theory of free trade is an application of Laissez-Faire to international relations. It says that it is best for all nations to not put any restrictions on trade. This is among the most widely believed and fervently advocated ideas of economists. It is an excellent illustration of the idea of power/knowledge. This theory was invented in England, *after* it had acquired a fifty year lead over the rest of Europe in industrialization. As Bairoch (1995) has shown, adoption of this theory in Europe led to a recession in European economies and a boom in the English economy. German economist List realized this and put forth the infant industry argument to create tariff barriers against England. This revived the German economy and allowed it to compete and industrialize. Contrary to the idea of knowledge as truth, English theories of free trade represented their economic interests while German theories of infant industry reflected German needs of the time.

There are many other instances which show the direct relationship between Power and the Knowledge that Free Trade is good. These are cases where these theories were imposed by force on unwilling (and ungrateful) recipient nations. Japan was invaded for the sole purpose of imposition of free trade by Admiral Perry of the U.S. and including Britain, France and Germany with some representation of Holland as well, The treaty imposed upon Japan forbade her from imposing any tariff, either on imports or exports. Similarly, the two Opium Wars in China were fought in the holy name of Free Trade to defend the rights of the English to export Opium to China. The theory that it was beneficial for Portugal to export wine and import clothing from England instead of setting up her own cotton industry was enforced upon Portugal by English gunboats.

If knowledge that free trade is beneficial for all nations is the objective truth, then it is rather odd how nations at the receiving end of these theories stubbornly refuse to see this truth, while the more powerful nations utilize force to bring them to their senses, and do what is beneficial for all. The idea that knowledge is an expression of power conforms perfectly with this historical experience.

Trickle Down Theories

The World Bank and other powerful institutions continue to insist, despite overwhelming evidence to the contrary, that the best way to eliminate poverty is through economic growth. This is also the approach of standard economic textbook on growth theory: the main problem is the accumulation of capital. This idea has been labeled the “trickle-down” theory – concentrate on acquiring wealth, even though this wealth will go primarily to the rich and powerful. Eventually their prosperity will trickle down to the poor. Furthermore this is the best strategy to help the poor.

We have already detailed Mahbul-Haq’s implementation of these theories in Pakistan, and their subsequent failure. Under the name of “Structural Adjustment Programmes” or SAP’s these economic policies were applied all over the world by the World Bank. According to the received wisdom, this should have created growth, stabilized governments, and alleviated poverty. However, independent evaluations by Mr. Fantu Cheru (2001) show that these have had the opposite effect:

“Increasing malnutrition, falling school enrolments and rising unemployment have been attributed to the policies of structural adjustment. Yet these same institutions continue to prescribe the same medicine as a condition for debt relief, dismissing the overwhelming evidence that SAPs have increased poverty.”

Many other authors have documented the harmful effects of the SAP’s on global poverty and inequality. Even World Bank experts have admitted that these policies have failed to achieve the desired effects. Accordingly, the SAP’s were replaced by PRSP’s – Poverty Reduction Strategy Papers. The name strongly suggests that these papers would be more poor friendly. Closer examination reveals old wine in new bottles – policies known to worsen poverty continue to be pushed as effective anti-poverty measures. The reasons why PRSP’s will not make any impact on poverty is detailed in the report by Cheru (2001) cited earlier.

There is overwhelming empirical evidence against the central idea of the “trickle down” effect. Repeated experience shows that implementation of unfettered capitalistic policies leads to unhealthy concentrations of wealth and income at the top, and increasing poverty and misery at the bottom. The collapse of communism has allowed for the worldwide application of these free market theories. Reagan and Thatcher implemented these free market policies in the USA and UK with predictable results. From 1980 to 2006 the richest 1% of America tripled their after-tax percentage of the nation's total income, while the share of the bottom 90% dropped over 20%. Between 2002 and 2006, it was even worse: an astounding three-

quarters of all the economy's growth was captured by the top 1%. The same pattern of sharply increasing inequality holds globally; the wealthiest 250 persons have more than the poorest 2.5 billion people on the planet. In her book *The Shock Doctrine: The Rise of Disaster Capitalism*, Naomi Klein (2008) has provided a detailed picture of the adverse effects of these theories and policies.

Empirical data clearly shows that free market policies lead to “trickle-up” – money is extracted from labourers and accumulates in hands of wealthy elites. Nonetheless policies and theories taught in texts continue to favor and advocate the opposite: a growth oriented perspective towards poverty removal. This does not accord well with the idea of knowledge as truth, but is very much in line with the idea of knowledge as an expression of power.

Conclusions

Extremely disturbing consequences follow from the idea that our political and economic theories are reflections of dominant power interests, rather than an encapsulation of objective truths about the world. An immediate consequence is that our educational institutions strengthen existing power structures. This is because the “knowledge” being imparted to the students is not factual information about the world, but a representation of existing power configurations. This may be very useful to the wealthy and powerful countries, but is very harmful to the poorer countries, since the political and economic theories studied as objective truths support the current extremely inequitable distribution of world wealth. Klein (2008) has given examples of how specific universities in target countries have been helpful in supporting the interests of foreign capitalists at the expense of domestic industries and labourers. For example, the School of the Americas run by the US Military for Latin Americans produced many dictators who ruthlessly enforced free market policies in Latin America, favouring US Corporate interests at the expense of the native populace. Efforts to shut down the School and cut its funding for these reasons failed, and it continues its old policies under a different name.

Globally, university educated elites are taught to favor political and economic policies which limit, harm or destroy domestic industries, while favoring foreign investors. Several economic theories point to foreign debt as the key to progress; it can fill the investment gap and accelerate growth. Such theories place the poor countries in bondage to the rich, enabling them to extract colonial revenues without actually colonizing:

- The developing world now spends \$13 on debt repayment for every \$1 it receives in grants.
- For the poorest countries (approximately 60), \$550 billion has been paid in both principal and interest over the last three decades, on \$540bn of loans, and yet there is still a \$523 billion dollar debt burden.

In the past, armies were required for this process of revenue extraction from the colonies, and wars were used to dictate free trade as the terms of surrender. Today graduates of elite Western universities and their local replicas at the helm of Economics and Planning ministries suffice. These observations have radical implications for the planning for higher education in Pakistan.

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