Circular Flow Of Economy Or Exploitation

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Abstract
Increase in the GDP and national income is having no meaning when it is not inclusive of common man's share in growth. The growth which does not reach the unachieved is not true growth. The true economic growth means the growth which includes growth of every citizen of the country and enables them share the benefits of the growth. Economic growth can be testified only by the rising standard of life of the common people. Why growth does not reach the unreached? The answer to this question lies in how an economy works? Economy works in favor of people who have power. Power may mean many things, money power, muscle power, political power, and power of knowledge and so on. The economic activities are carried out in an integrated manner that creates a continuous process of economic transactions - buying and selling. These economic transactions generate two kinds of flows, viz., Product flow and Money flow. The two kinds of flows go in opposite direction in a circular manner and make two kinds of circular flows. The working of an economy can, therefore, be viewed as circular flows of product and money and the size of the economy as the volume of goods flow. The people, who have power, control the circular flow of the economy, i.e. flow of products and flow of money. Thus, the economic flows favor towards people who have power. This article highlights on how the circular flow of economy works in a systemic manner to suppress the weaker section and to favor the powerful people in the economy.

Key words: Economy growth, Product flow, Money flow, Exploitation, factor payments.

INTRODUCTION
“I care less about Gross Domestic Product and more about Gross National Happiness” - Jingme Singye Wangchuck. This quote indicates the significance of common people welfare and not mere economic growth in numbers. Increase in the GDP and national income is having no meaning when it is not inclusive of common man’s share in growth. The growth which does not reach the unachieved is not true growth. The true economic growth means the growth which includes growth of every citizen of the country and enables them share the benefits of the growth. Economic growth can be testified only by the rising standard of life of the common people. Why growth does not reach the unreached? The answer to this question lies in how an economy works? Economy works in favor of people who have power. Power may mean many things, money power, muscle power, political power, and power of knowledge and so on. An economy is a system of interrelated economic activities and economic transactions such as production, exchange and consumption. These economic activities are controlled by people who have power thus, economy works in favor of people who have power. The economic activities are carried out in an integrated manner that creates a continuous process of economic transactions – buying and selling. These economic transactions generate two kinds of flows, viz., Product flow and Money flow.

The product flow consist flow of factors of production and flow of final goods and services. In a monetized economy, factor and product flows generate money flows in the form of factor payments and payments for goods and services. These two kinds of flows go in opposite direction in a circular manner and make two kinds of circular flows. The working of an economy can, therefore, be viewed as circular flows of product and money. The people, who have power, control the circular flow of the economy, i.e. flow of products and flow of money. Thus, the economic flows favor towards people who have power. This article highlights on how this circular flow of economy works in a systemic manner to suppress the weaker section and to favor the powerful people in the economy.
Circular Flow of Exploitation in a simple economy

In a simple economy assumes only two sectors: (i) **households** which represents all the weaker section of any economy who have very low or no power and (ii) **firms** which represents powerful people in any economy who have high power. More important fact is always people of weaker section are more in numbers than powerful people. The households have two characteristics: (a) they are owners of factors of production and (b) they are consumers of all final goods and services. Firms, on the other hand, have two characteristics too: (a) they hire factors of production from households and (b) they produce and sell their final products to the households.

In simple economy model, households are assumed (i) to own the factors of production, (ii) to consume all final goods and services and (iii) their income consists of wages, rent, interest and profits. Households since they are weaker section of the economy they may not own all the factors of production except labor. They own very less or no factors such as land, capital, material, whereas they only own abundant labor factor. However, they have less land, capital, and material and households cannot control the price of these factors. For example, in case of land acquisition government fixes the price, capital interest is fixed by government, materials say agri-producers farmers cannot fix prices similarly wages for labor is not fixed by the laborers. Since labor is only the factor which households own abundantly. Wages is only the major source of income for households. However, profit is not the major source of income for the households, whereas profit is the only the source of income for the firms.

The business firms, on the other hand, are assumed (i) to hire factors of production from the households; (ii) they produce and sell goods and services to the households; and (iii) they do not save, i.e., there is no corporate saving. However, firms do save major chunk of money in terms of profit. Sometime they declare some portion of profit as dividend to their investors. Here investors include households and promoters of business firms. Participation of households in equity market is very low or negligible, the reason is households do not get sufficient surplus of money to invest. Therefore, the share of profit what households get in the form of dividend is also very low or negligible.
price takers not price makers. Thus, factors flow to the firms at very cheaper price this is where the point of exploitation starts. The factor market does not work exactly on the basis of law of demand and supply. More importantly in the labor market, wages or salary is determined by firms but not the laborers. If workers demand more wages they may not be recruited for jobs. Here firms have freedom to recruit or not to recruit the labor. But workers do not have choice but for working for low wages, because he has only the asset i.e. his labor. If he does not work for low wages he does not have any asset to lead his life. He has to earn for his livelihood, earn for food, earn for his parent’s health, earn for his children’s education and so on. Thus, he works for low wages, since he works for low wages he has to work more and more to get little more money. For example employees work for 12 to 16 hours in firms to get 8 hours wages. This leads to less demand for labor or an oversupply of labor artificially. This is the way exploitation happens in the flow of the factors.

Similarly it happens for other factors owned by households, normally households own agri-produces as their output which is input for firms. Farmers cannot fix the price for their products; it is completely dominated by middleman and firms. So, middleman and firms offer very low price for farmers. Farmer cannot withhold his products because he needs money for his livelihood, for family health, kid’s education and more importantly he has to pay interest for his loan. Therefore he sells his products at lesser price. However, he has to buy products like fertilizers, seeds, pesticides etc at the price fixed by the firms and middleman. This leads to higher cost of production but no reasonable income for farmers. This is the way of exploitation, leads farmers’ to suicide.

As shown in the lower half of the figure 1, goods and services produced by the firms flow from the firms to the households. In this flow since, firms have complete control on production and supply of goods and services they fix the price of their produced goods and services as they wish. Firms charge very high price so that they get more profit. Firms do not reduce price if there are no buyers at higher price. They create artificial demand by withholding supply of products. Households have to pay high price to buy goods and services. Households cannot postpone their current consumption because they have to live their life. Whatever income households earn by rendering their labor is not sufficient for buying goods and services. Thus, households have to borrow money or they sell their property, whatever they have, to buy products. So, there is exploitation in this flow also. In fact, these households, laborers, who actually worked for firms and produced products who unable to buy them. It is like double edged sword; households are exploited while selling their factors of production to firms and also while buying products from firms.

The arrows, in the above figure, showing factor and product flows are called real flows which take a circular path. This product flow generates money flow. As the figure shows, money flows from the firms to the households in the form of factor payments as wages, interest, rent and dividends. Factor payments take the form of household incomes. The least amount of money flows from firms to households in the form factor payments. Households spend their incomes on goods and services they consume. As a result, money incomes flow from the households back to the firms in the form of payments for goods and services. The maximum amount of money flows back to the firms in the form of price for goods and services. Thus, money paid by the firms as factor payments flows back to the firms as payments made by the households for goods and Services. This makes the circular flow of money.

Note that product and money flows make the circular flows in the economy and that products and money flow in opposite directions. These flows represent the working of the simple economy. An important feature of product and money flows is that the value of real flow equals the money flow. This equality results from the fact that factor payments are equal to households income, since households spend their total income on consumer goods and services, household expenditure equals the total receipts of the firms, which equals the value of the output. These equalities can be summarized in the form of identities as follows. In the final analysis, household incomes = factor payments = the money value of the output. But this is not true in reality.

The factor payments are equal to households’ income, but factor payments far lesser than the value what they contribute to final products. Since households’ income is not sufficient for buying goods and services, households borrow money and spend in addition to their total income to buy consumer goods.
and services. Households’ expenditure equals the total receipts of the firms, but which is far more than the value of the output. These equalities can be summarized in the form of identities as follows. In the final analysis, household income = factor payments < the money value of the output of firms. Therefore, the income of households is not equal to income of the firms. The difference is the profit of firms which is accumulated because of lesser factor payments to households.

The product and money flows in Figure 1 assume that there are no withdrawals from and injections into the economy. Withdrawals means withholding money incomes as idle cash balance. This withholding is not ‘saving’ for savings are returned to the circular flows in the form of purchase of capital goods (investment). Withdrawals are also called leakages. Injection, on the other hand, means money expenditure in addition to factor incomes. In reality, however, there are withdrawals from and additions to the circular flows.

Let us look at the forms and nature of withdrawals and injections. In our two-sector model, a withdrawal is an amount set aside by the households and/or by the firms, not to be spent on the goods and services over a period of time. For example, if households set aside a part of their current income as a provision for old age or as security against the loss of job, etc., it is called a withdrawal. It is important to note that a withdrawal is not a saving. For, savings are ultimately returned to the circular flows in the form of investment expenditure. Likewise, firms may withhold a part of their sales revenue and not return in to the circular flows if they anticipate depression. Withdrawals reduce the volume of the circular flow. However, since households’ money income is not sufficient for buying highly priced goods and services they do not remain with surplus to withhold money income as idle cash balance. But firms earn high money income in terms of profit they hold money in terms of reserves and surplus. Firms may keep money in illegal forms such as money laundering. Thus, weaker section’s withdrawals are far lesser than the withdrawals of powerful people in the economy because of excess surplus available with them.

Injections, on the other hand, are the amount that is spent by the households and or firms in addition to their current incomes generated within the regular economy. Injections may be made by the households in the form of spending past savings or hoardings. Injection by the firms may take the form of spending past savings or hoardings. Injection by the firms may take the form of spending their accumulated savings. Firms may inject money into the economy by borrowing from households at very low rate of interest. Since households’ income is not sufficient to buy highly priced goods and services they also borrow money from firms or rich people at higher rate of interest and inject money into economy to buy goods and services.

**Circular Flow of Exploitation in a Three Sector Economy**

![Figure 2. Circular Flows of Product and Money in a three sector Economy](image)
The inclusion of the government into the model brings in the government’s economic role and the effect of its fiscal operations on the circular flows. For simplicity sake, however, we will consider only three kinds of monetary flows between the government and the rest of the economy, viz., Direct taxes on households and firms, Government expenditure and Transfer payments and subsidies. In three sector economy, real and money flows between the households and firms are the same as shown in two sector economy. It means the flow of exploitation remain same in the three sector economy also. Let us now look at the real and money flows between the government on one hand and households and firms on the other.

As Figure 2 shows, a part of the household income flows to the government in payment of taxes. The government spends a part of its tax revenue as “factor payments” to the households i.e., on purchase of factor services (labor and private property) and a part in the form of transfer payments, as pension and food subsidy, etc. These flows make money flow between the households and the government. As regards the real flows, factors of production move from the households to the government and social services (schools, hospitals, police, roads, etc.) flow from the government sector to the households. These flows make the real flows. Thus, a part of household resources (real) and money incomes keep circulating between the households and the government. Note that the two flows are not equal. It is absolutely true that the two flows i.e. money flow form households to government in terms of tax and money flow form government to households in terms of factor payments are not equal. The reason is very simple the government is powerful than the households in the economy, economy works in favor of powerful section of the economy. The amount of tax what government collects from households is far higher than the amount what government really spends on factor payments and social services. Example, labor exploitation is the common factor both in private sector and government sector. Government appoints labor form households for producing goods and services and pays least wages for laborers in some cases lesser the minimum wage rate fixed by the government itself. Government also appoints laborers on contract basis pay very meager amount say around R. 5000/- for a clerk per months, Rs. 10000/- Lecturers and certain portion of wages goes to labor contractors this leads more exploitation of labor. Thus, amount of tax what government collects from households is far higher than the amount what government really spends on factor payments and social services. Because of high corruption in the economy very little amount of money reaches to households in terms of factor payments, transfer payments and social services and majority of government spending goes to powerful section of the society in terms of subsidies to firms, tax holidays, free facilities, loans, and commission for contractors, corrupt bureaucrats and politicians etc because they all powerful, economy works in favor of powerful people and more money flows towards them. Government has become an instrument or channel to transfer the money form households to powerful section of the economy both legally and illegally.

Similar flows take place between the government and the firms. Firms pay a part of their incomes as taxes to the government. The point to be noted here is firms do not pay part of their income as taxes to government. Firms collect taxes from households along with required return/income and transfer the same to the government. Some firms also may involve in tax avoidance practices, manipulation of their real incomes. So less money flow towards government in terms of taxes which is to be spent on public services. In return, the government pays back a part of its tax revenue in the form of payments for purchases from the firms and a part as subsidies. Firms also enjoy tax holidays, subsidies, and free facilities from the government. Government pays back to firms in terms of free facilities, subsidies more than what they spend on households. Since households are not powerful like firms they cannot influence government to get their share in government spending, whereas firms are more powerful than households and they know how to make lobby and get bigger share in government spending. This makes money flow between government and firms. The flow of goods and services from firms to government makes the real flow.
Circular Flow of Exploitation in a Four Sector Economy

In this section, we describe circular flows of goods and money in a four sector model. International transactions and the consequent flows of goods and money make a complex system. For simplicity sake, however, we assume that foreign sector consists only of exports (X) and imports (M) of goods and services and that households export only labor but import goods and non-labor services. As mentioned above, foreign sector consists of exports from and imports to the domestic economy by (a) households (b) firms and (c) government.

Households’ contribution to the exports is very low compare to other sectors. As shown in figure 3, households export only manpower (labor). In return, they receive foreign remittances. But they buy imported goods and services for which they make payments. Households cannot export goods easily to foreign sector because of lot of regulatory hurdles and middlemen problems etc. Households export only manpower, it is because of low wages in the domestic economy. In the same way, foreign sectors import labor because it is available cheaper compare to their domestic wages. Here also laborers are exploited by foreign sector that is foreign firms by paying low wages. Households consume very less amount of goods and services from foreign sector and these imported goods are not cheaper. Therefore, households have to buy goods and services at higher price from foreign sectors in the process households suffer. However, it is not economically feasible for households to directly involve in export and import of goods and services.

Firms and government sectors, on the other hand, are shown to import and export both goods and services. Firms involve actively in exports and imports of goods and services. Why do they involve in exports and imports? The simple reason is they get profit better than what they get in domestic market. Though the domestic people need goods and services they cannot buy at higher price. Neither firms sell at lower price nor people able to buy at higher price. So firms export goods and services to foreign sector where they can get higher profit. It means when firms are unable to exploit domestic households with higher price they export goods and services to exploit foreign households. Similarly when firms are unable to exploit domestic laborers by paying lowest wages they import laborers to exploit from foreign. Further it means that by adding foreign sector into economy is to exploit domestic households by foreign firms and to allowing domestic firms to exploit other country households.

No foreign firms and no foreign governments trade philanthropically with other countries. The main motto is to make more money or profit it is only possible with charging at higher price and paying lowest wages to laborers. It leads to exploitation of weaker section by the powerful people from foreign sector. Whether foreign firms or domestic firms the nature of exploitation is same.
CONCLUSION

Eventually this exploitation process leads to bigger gap between rich and poor. Very few people may get little advantages of growth, whereas millions of people get exploited and become jobless, landless, homeless, and so on. India’s richest 10%, getting richer, hold 370 times the share of wealth that its poorest households hold. This clearly shows that the disparity is increasing no matter how much economic growth is achieved. This leads to crime, the crime rates are very high during post liberalization era across the world. When millions of people become deprived they lost purchasing power. This causes to disaster in the economy. This leads to the situation where firms and governments cannot exploit people further with high price and lowest wages. This collapses the economy and the whole system. The existing system, exploitation process, has to be replaced by new system in which goods and services are sold without profit; laborers get wages equal to the value what they create, household incomes is equal to factor payments and that equal to the money value of the output of firms, where there is no corruption and no exploitation. In this system goods and services are produced and distributed not based on the demand but based on the needs of the people. The growth of the economy in the system reaches every citizen of the country equally.