

Economic class



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Douglass North organized the discussion on " why the united s economy developed" with the focus on issues of the expansion of income rather than its distribution and the social and political issues that such distribution gave rise to. North bases his model on historical and economic antecedents, which place central importance on the role of external trade in widening the market sector and increasing their productive efficiency. North laid emphasis on the price system and the responses to it by individuals and fitting the growing awareness of the historical importance of market forces in determining individual behavior. He broadened the induced responses to include the development of institutions, of social overhead capital and even induced innovations. The models fitted well into the turnarain framework while the attention [paid to the link between market forces and institutional development made a richer discussion. The emphasis on foreign and external demand sources to trigger growth has much more appeal that those explanations that are based upon supply forces and that seem to lack a starting mechanism. Regional specialization and possibilities for inter-regional trade in the antebellum Unites States have intrigued economists and historians alike. The works of Douglass C. North have stimulated a lot of research on the location and the growth of industries and populations. The issue of economics of slavery complemented the study of regional development. Discussion revolves around Southern development, both in the agricultural and manufacturing sector, with particular attention being paid to the question to which the south was successful or could have been successful in feeding itself as well as producing staples for export. The evidence collected by various researchers indicated that the south was largely independent of the western food supplies (Herbst Lawrence 1975,

264-270).

The basic model used by North bears resemblance to that by Innis as the "staple basis" and can be traced back to Adam Smith as a "vent for surplus" model. Colonial markets were too small to generate growth and only the availability of a product demanded by the rest of the world could draw people out of a "subsistence" sector. This "export base" led to demand elsewhere in the economy, providing a necessary condition for growth and had different effects on the pattern of development depending on the nature of the production conditions the export sector. The availability of a wider market provided increased division of labor and regional specialization. North's Cotton thesis on large foreign demand for cotton in the years 1815 to 1843, led the source to specialize in export production, to require foodstuffs from the developing northwest and to import the manufactured goods northeast.

Keynesian economists promote a mixed economy where both the state and the private sector have important roles. In Keynes theory, macroeconomic trends can overwhelm the behavior of individuals. Instead of the economic process being based on continuous improvement potential output as most classical economists believed, Keynes asserted the importance of aggregate demand for goods as the driving factor of the economy. General determinants of the size of the multiplier include marginal propensity to consume and marginal propensity to invest.

Peter Passell and Jeremy Atack (1994), discuss economic history and industrial transformation. Many social scientists such as Oliver Williamson and Alfred Chandler have attempted to explain why firms increased in size and industries have become highly concentrated. A misconception has

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consequently been advanced; that the interpreters of industrial concentration share certain basic benefits about the underlying causes of the process. Common to neoclassical economists and economic historians is the assumption that mass production is organized efficiency. Unless there are exogenous shocks like government interference, market decisions regarding the production and distribution are pareto optimal. If the market senses that resources can be produced more efficiently, the economy can thus evolve naturally.

REFERENCES.

Jeremy Atack and Peter Passell (1994). *New Economic View of American History*.

Lawrence A. Herbst (1975). " Interregional Commodity Trade from the North to the South and American Economic Development in the Antebellum Period, " *Journal of Economic History*, 35, March 1975: 264-270.