

How modern branches of economy were formed

[Business](#), [Management](#)



To the era that started in 18th century, focussed only on harnessing maximum value from the labour in order to maximise production. There was no separation between the state and business. Therefore, humans were autonomous giving rise to free will. Classical political economy as a school of thought can be seen existing even today where China and India are keen on industrialisation to the extent that labour is exploited at an alarming rate. In India farmers still face exploitation at the hands of the capitalist class. Today freedom ceases to exist, due to the various conditions imposed by the state. Hence, humans are not really autonomous. Focus still remains on demand and supply which gives rise to division of labour and exploitation of labour class.

In 1850s, price as a factor came into existence. Demand and supply acted like blades and scissors to maintain equilibrium and determine the market price. This led to maximising of profits with minimum cost. Efficiency at all cost is what neo classical was all about.

In 21st century, economies are made to follow Taylor's scientific management which was about reducing costs. What they fail to comprehend is that the efficiency for one is loss to the other.

Due to outsourcing, at one end there are benefits of efficiency and on the other extreme the small scale businesses are facing job losses. This is termed as negative externality. Efficiency fails to look after the holistic development. Neo liberalism favours free trade by going against state control. But this is an extension to American imperialism, where the most powerful is seen controlling the colonized states.

Keynes in his book, “ Scope and Method of Political Economy” demarks the boundaries between positive and normative economics. Positive economics is inclined towards neo classical school due to the price factor. It deals with “ what is”. Whereas, normative economics deals with “ what ought to be”.

Friedman in his book, “ Essays in Positive Economics” writes about that the economic results can be predicted. The criticism it faces is that the desirability of any policy also rests upon the societal consequences which cannot be predicted in advance. In India, the new education policy will have a profound impact on the marginalised communities due to lack of access in education. Institutes of excellence will focus on quality without realising that the amount charged by the institutes will not be affordable for a middle class student. While neo classical economics was building brick by brick, there were developments in the field of human resources. Hawthorne studies by Mayo showed that humans were social beings and there were factors other than monetary aspects that need to be looked upon.

While neo classical school of thoughts gave rise to individualism, old institutional school of thoughts reflected the notion of collective state. With the International Labour Organisation, there was a need to align society and business. Trade unions were formed in order to maintain peace by collective bargaining processes. In India, trade unions are politically dominated. In USA, the state laws have restricted the power of unions. Thus, the ideology that old institutional school brings is that of collectivism.

Sustainable Development Goals in various sectors like education and health are a result of old institutional economics.

New Institutional economics considers governance and social costs. It highlights that in the presence of transaction costs, prices cannot coordinate. While finding a paying guest accommodation in Delhi University campus, a broker asked for 5% charge over and above the brokerage. The reason for the same was the extra time given in searching for the accommodation. Here in this case, the market price might be 50% of the rent. But the extra 5% is not something that is coordinated. This we refer to as transaction costs which build due to new institutional economics.

The emergence of population dynamics meant heterogeneity which gave rise to competition. Thus, a new school of thoughts called evolutionary economics emerged. Some industries adapt to change and turn out to be successful. Some others face death due to difficulty in adapting. The Darwinian Theory works in a similar way. The cassette industry faced death as it failed to adapt. Nokia once a leader faced the same fate. The trick is to keep adapting thus leading to novelty and innovation. Apple seems to be doing it well.

In general human beings are assumed to be rational but in the real context they are impulsive, short tempered and irrational. This was studied by Adam Smith in his book, "The Theory of Moral Sentiments". Smith makes distinctions between passion and impartial spectators. While I maybe hungry (passion- hunger), I would still not resort to stealing due to my moral conscience (impartial spectator). Passions are largely short sighted, they derive short sighted pleasures. Joining a corporate after masters would act as my passion (money) but choosing research which will give me results

after years continue to give me happiness, this is the impartial spectator that Smith talks about.

Heading towards the future it seems vital to look into the interdisciplinary influences in the field of economics as mentioned by Beth Allen. Mathematics helped in shaping economics by solving the problem and getting the results. Bounded rationality as contributed by Herbert Simon was established by the interdisciplinary influences of human resources and economics on each other. With the advent of artificial intelligence, there exists a dire need of studying the effects of artificial intelligence on jobs. Intellectual capital consists of IPRs which again is a popular area to be explored by combining economics and management. Game theory is a popular technique of bridging strategy with economic.