The contribution to economics of each of the following

Economics

“ Many Economists have tried to establish why the economy performs as it does and want to have a basis for predicting how the economy will perform when circumstances change”. (Nagel, S pg 1 1999) Economists are just people after all, who have lived through different times and experiences in their lives, thus leading to different values and views. George Bernard Shaw once said that “ If all economists were laid end to end they would not reach a conclusion”,(cited in Mankin, Taylor 2006) In this essay we will look at what contributions each of the above economists have made, keeping in mind the era in which they lived .

Reputed to be the father of “ The Classical School” of economics, the Scottish born Adam Smith (1772-1790) was a supply side economist. “ He attributed economic expansion to expanding production and trade with expanding demand as a by-product and consequence”(Jacobs, J 1985 p12) He promoted the invisible hand of free enterprise, which showed that individuals in pursuing their own selfish interest could benefit society. In other words, if people wish to sell, they must produce what others require at a price that they are prepared to pay. (Palmer. N, 1990).

He also advocated the “ Laissez-faire” approach, which means that the government should only get involved in the economy in order to raise monies for the upkeep of infrastructure, to sustain the legal system and to defend the country. In Smith’s book ‘ An inquiry into the nature and causes of the wealth of nations’ which was published in 1776, he covered the previous two concepts as well as the division of labour and the function of markets. Division of labour was not a new idea but Smith believed it to be very important as a way of increasing wealth.

According to Delaney, Smith established the 4 canons of taxation. “ Firstly, the tax levied on each person should be related to the person’s ability to pay. Secondly, the amount of tax which a person must pay should be certain and clear. Thirdly, the manner and timing of payment of taxes should have regard to the convenience of the tax payer. Finally, the cost of collection should be small relative to the yield”. (2008) Another belief of Smiths was the Labour Theory of Value, which means the value of a product is equal to the value of the labour involved in its production. Delaney. N 2008).

Smith believed that there was a distinction between productive and non-productive labour. Teachers, engineers and people with similar professions were considered to be non-productive as they did not produce goods for resale or create funds for reinvestment. Smith also introduced the “ value in use” and the “ value in exchange” of a product (the paradox of value). Twenty years after Smiths death his writings and theories were embraced by the next generation of writers and economists who established Smith as the founder of economicscience.

It has been said that before Adam Smith there had been much economic discussion, but with him it reached the stage of discussing economics. (Palmer, N) The classical school of thought was later developed and refined by Thomas Robert Malthus (1766-1834) and David Ricardo (1772-1823). Both were English born and were followers of Smith’s theories. Malthus is known for his famous “ Essay on the Principles of Population as it affects the Future Improvements of Society” published in 1798.

At this time in history the Industrial Revolution was taking place which meant more people were moving from rural areas into urban areas. Malthus saw many slums being created withfood, water and sewage becoming a huge problem. In his essay, he laid out how the population would grow by a geometric progression, while food supply would only grow by an arithmetic progression. He identified that there should be a check on the growth of the population. These checks included positive checks which involved death through war and disease or preventative checks which meant people should have fewer children.

He advocated the wages fund theory. The idea behind this theory was that payment to workers in excess of the subsistence level would lead to an increase in the size of the workers families thus causing the worker to be brought down to a subsidence level of existence. (Palmer) This idea dominated for over a century. It was very popular with employers as it allowed them to pay lower wages and to feel justified in doing so. He is linked with the theory of the “ Paradox of Thrift” meaning that if people save consumption decreases, leading to over-production.

To counteract this problem, he advised the government to spend monies on non-productive areas such as the building of parks in order to create the circulation ofmoneyand therefore stimulate demand. (Delaney) Malthusian theories are still relevant today in some areas of the LCD’s (lower developed countries) Like Malthus, Ricardo too accepted the wages theory and introduced the concept of “ economic rent”. The idea behind this rent was “ any payment to a factor of production above its supply price”(Delaney) For example during the Napoleonic wars, Europe turned to Britain for its food supply.

This created huge demand and it became very profitable to produce food. In order to produce as much food as possible, landowners were now using less fertile land which had not been used before for food production. This increased the demand for land thus driving up the rent, especially the rent for the more fertile land. He thought that agriculture was very important and industry depended on it. Ricardo inspired by " Sutter's" books developed the law of comparative advantage. This formed the basis of international trade.

He believed in free international trade as it gets the maximum out of resources thus increasing income (Nagel) Karl Marx was born in Germany in 1818. He expressed his revolutionary socialist ideas in his two main publications the Communist Manifesto and Das Kapital. Marx basic economic beliefs were very alike the Classical economists, in that he supported a labour theory of value but his approach was completely different. Marx wanted things to change in such a way that would help to improve working conditions for the working classes.

He did not believe in the " invisible Hand" and was more concerned with change and evolution throughout society. He believed communism would replace capitalism and that workers would have full control over all means of production leading to a more even allocation of wealth. He believed that the value of a good was the value of the amount of labour necessary to produce it. Therefore the value of goods produced by the worker was more than the wages paid to the worker, the difference being a surplus or profit to the employer.

Marx argued that this was exploitation of the workers by their capitalistic employers. Believing that the capitalists were profit hungry, Marx stated that the demand for labour would amplify which would in turn cause wages to rise. The rise in wages above subsistence level would lower the capitalist’s profits therefore causing them to look for ways in which to lower their wage costs. Many employers would start introducing new labour saving machines in order to save money.

As the machines would replace labourers this would lead to a rise in unemployment thus leading to lack in demand for goods produced. As more workers became deskilled and redundant their bargaining power for better wages weakened leading to a two tiered society namely “ the proletariat” (working classes) and “ the capitalists” classes. Marx believed that the working classes would rise up and overthrow the capitalists’ regime. The workers would then be in control of the factors of production. He predicted the emergence of oligopolies and trade cycles. Marx died in London in 1883.

The introduction of maths to illustrate economic theory or as it is better known now as econometrics was introduced by the English born Alfred Marshall (1842-1924). He introduced the law of diminishing marginal utility and coined the term elasticity to describe the response of demand to the small changes in price. He put forward the well-know scissors analogy, likening the demand and supply to the two blades of a scissors interdependent on each other. He pointed out that there was a difference between the long run and the short run for production purposes.

Recognising that in the short run at least one factor of production would be fixed in contrast to the long run where all factors of production were changeable. Marshall came up with the concept of quasi rent, which was economic rent earned by labour in the short run and which disappeared in the long run by the increase in the supply of that labour. He believed in a free enterprise economy with some government intervention for example the introduction of government controls and consumereducation.

Marshall's theories were hugely influential; in fact his book the Principles of economics (1890) was the main textbook for students of economics up to thegreat depressionof the 1930's. (Delaney) John Maynard Keynes (1883-1946) was an Englishman who became one of the most influential economists of the twentieth century. " His influence on economics was so great that the boom the Western industrial countries experienced between 1945 and 1975 has been termed the " Age of Keynes". (123HelpMe. com) Keynesian theory advocated the exact opposite to the Classical " Laissez-faire" approach.

According to Delaney, R 2008, Keynes was a demand side economist, who stressed that economies could be regulated by government fiscal policy. He believed that budgetary policy should be the main economic instrument used in the control of the economy. During the Greatdepression, Keynes became the life saver of the American economy. His main objective was to come up with a solution for the mass unemployment during this terrible time. In his book The General Theory of Employment, Interest, and Money (1936), Keynes put forward that there could be equilibrium at less than full employment.

He stressed that by increasing government expenditure in areas like public works, this could help increase total spending thereby helping to bring economic activity to the full employment level. (Palmer, N. 1990). Keynes also introduced the multiplier effect, which means the National Income would rise by some multiple of the initial injection of government expenditure. (Nagle, S 1999) Keynes developed the liquidity preference theory of interest rates and also explained that savings and investments were not always equal to each other. (Delaney, R 2008).

Keynes theories are still relevant to this day. Milton Friedman was born in American in 1912. He tried to make economics more user friendly to the layperson. His theories were in direct opposition to Keynes. He wrote many books but his main publications were ‘ Inflation, Causes and Consequences’ and ‘ A Monetary History of the United States 1867-1960’. “ His theories first attracted national attention in the 1970s, when the combination of inflation and stagnant economic growth — stagflation — undercut the dominant Keynesian policies of the post-war decades”.

Friedman was a monetarist and he argued that monetary policy rather than fiscal policy should be the main tool used to control the economy. Monetarists believe that increases in the money supply results in an increase in prices rather than an increase in the level of output. They argue, like the classical approach, for no government intervention in the economy, that free-market forces should be relied on to bring the economy into equilibrium.

He promoted privatisation of all government-owned or controlled businesses. Removal of inflation is a greater priority to the monetarists rather than the removal of unemployment. (Delaney) In 1976 Friedman won the 1976 Nobel Prize in economics. “ An advocate of personal liberty, free markets, deregulation, and reduced government intervention in the economy, he has seen his ideas on issues as Social Security privatization, welfare reform, and school vouchers become part of national political debate”.