B. The Roots of Modern Economic Systems

1. Classical and Marxist Theories of Economic Change

Why and how does economic change occur? Is economic change essentially technological in nature, or does it either rely on or cause social and political change?

Is it revolutionary or evolutionary? Gradual or sudden?

Can it be explained as the result of a rational process?

Is it convergent or divergent?

2. The Historical Development of Capitalism

3. The Marxist-Leninist Critique of Capitalism

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The Classical View

- Change is a gradual process
- Growth is primarily a function of capital accumulation
- Tendency toward equilibrium
- Ricardian/Malthusian Dialogue
  - Malthusian model: population growth, the iron law of wages, diminishing returns, and the dismal science.
  - Ricardian model: economy will eventually stagnate. Rising food costs, rising land rents, rising nominal wages, falling profits, falling investment rates (worsened by proportional depreciation.)

Contrast with Neoclassical View

- The neoclassical view is much more optimistic.
- Same view of gradual, equilibrating change, but growth can be perpetual.

- Growth is a gradual result of:
  1. Investment in physical capital
  2. Technological progress resulting from the incentive to invest in research and development
  3. Improvements in human capital resulting from individual incentives to invest in skills and education
  4. Improvements in efficiency resulting from efforts to increase profits.

- Market economies with clearly-defined property rights and a minimum of government intervention are best able to provide the best incentives that lead to economic growth.
Neoclassical economists are also much more optimistic about the problem of population growth. The decision to have children is a rational decision based on tradeoffs, not the product of uncontrollable breeding. As the opportunity cost of having children rises with an increasingly urbanized, industrial society in which both men and women may work, people may (and often do) choose to have fewer children.

Furthermore, population pressures increase the incentive for doing things more efficiently.

An Aside: international trade and finance has a potential role in neoclassical view:

- Firms are encouraged to produce more efficiently, and economic growth occurs from specialization and exchange.
- An international division of labor leads to overall gains from trade that are shared among nations. The flow of goods, services, and capital between countries favors higher returns and lower costs.
- As a result the forces of supply and demand tend to lead towards an equalization of prices, wages, interest rates, and policies across nations, and thus tends to lead towards increasing economic convergence.
- Governments of countries which engage in global competition are less likely to get away with government intervention, since markets punish countries with inefficient policies (e.g., capital flees countries with high taxation or unstable monetary policies).

Marxist Theory of Change

- Karl Marx, Das Kapital
- Economic change is a evolutionary (even revolutionary) process, and one which determines social and political structures.
- Based on Georg Hegel's idealist philosophy of the dialectic: conflict between thesis and antithesis leads to synthesis – a struggle between opposites.
- Marx saw history as determined by materialism and the struggle between socioeconomic classes.
- In historical materialism, productive forces determine the relations of production, which in turn determines the superstructure.
Marxist Theory of Change (2)

- The dialectical process is that as productive forces change, contradictions between productive forces and the relations of production emerge and accumulate.
- Eventually, this leads to qualitative (sudden and noticeable) change over a relatively short period of time (e.g., tectonic movement and earthquakes).
- Like the Yin and Yang of Chinese Daoist (or Taoist) philosophy, each economic system (thesis) carries inside it the seeds of its own opposite (antithesis), and therefore of its own destruction.
- Societies advance according to a predetermined pattern -- Primitive Communism to a Slave Economy to Feudalism to Capitalism to Socialism to Communism and the end of history -- in a grinding historical process impervious to the actions of the actions of individuals.
- Reforms of any sort which attempt to change aspects of a system without changing its inner nature are doomed to failure.

More Questions of the Week

1. What is the classical theory of economic change? What is the source of growth, according to Ricardo and Malthus, and what is the ultimate outcome?
2. How does the Neoclassical view of economic change differ from the classical view?
3. What is the Marxist theory of economic change? How does Marx's historical materialism rely on the Hegelian dialectic? Why is this approach considered an hypothesis of revolutionary change?