# *Economic Classicism*

The **economic classicism** represents a cornerstone, the first modern school of economic thinking, built by the end of the 18th century around the ideas launched by Adam Smith.

The **economic classicism promoters** are:

- **Adam Smith** (1723-1790) - Scottish philosopher and, more important, pioneer of the classical economics, well known for his work *An Inquiry into the Nature and Causes of the Wealth of Nations*, also called, in brief, *The Wealth of Nations*, published in 1776, deemed to be the first reference work of modern economics.

  *Adam Smith* centred on:

  - the national interest

- the freedom of markets
- the theory of absolute advantage - the ability to produce a greater quantity of a good/service than competitors, while using the same amount of resources
- the freedom of trade

▪ **Jean-Baptiste Say** (1767-1832) - French economist and businessman, whose main work, entitled *Traité d'économie politique ou simple exposition de la manière dont se forment, se distribuent et se composent les richesses*, simply known as *Traité d'économie politique*, was published in 1803.

*Jean-Baptiste Say* centred on:

- the law of markets

▪ **Thomas Robert Malthus** (1766-1834) - English cleric and scholar, acting in both economic and demographic fields, mainly known for his work *An Essay on the Principle of Population*, published in 1798.

*Thomas Robert Malthus* on:

- the Malthusian catastrophe - the power of population to reproduce is incomparable greater than the power of earth to produce subsistence means for the same

- **David Ricardo** (1772-1823) - English economist, whose basic work, *Principles of Political Economy and Taxation*, was published in 1817.

  *David Ricardo* centred on:

  - the theory of comparative advantage - the ability to produce a good/service at a lower opportunity cost (the so-called cost associated with the loss of the benefit that a second best choice available would have brought)
  - the freedom of trade
  - the labour theory of value

- **John Stuart Mill** (1806-1873) - English philosopher, economist and civil servant, author of the work *On liberty*, published in 1859.

*John Stuart Mill* centred on:

- the freedom of individuals
- the theory of utilitarianism - the maximization of utility in terms of both quantity and quality

The **economic classicism** is characterised by the following issues:

- *The national interest* - the classical economists believed in the well-being of a nation, passing from the interest in one's own welfare to the interest in the growth of the nation wealth and in adopting policies oriented towards the national expansion.

- *The market self-adjustment* - the classical economists focussed on the capacity of markets to adjust themselves towards the equilibrium status, without the need of any consistent state intervention, the latter being reduced to the supervision of the basic context necessary for a proper functioning of the same.

- *The price flexibility* - the classical economists agreed on the capacity of prices, be they prices for goods/services, for labour provided, for crediting or for currency exchange, to quickly adjust to new market conditions.

- *The value theory in terms of costs* - the classical economists consented on the theory according to which the value of a product is given by the product related cost.

- *The law of markets* - the classical economists believed that supply creates its own demand, the former, irrespective of its level, being fully covered by the latter, due to the available financial means arising from a previous production process.

- *The savings-investment equality* - the classical economists focussed on the theory according to which, due to the flexibility of the crediting price (interest rate), there will be always a balance

between savings, encouraged by a high interest rate and investments, supported by a low interest rate.

The decrease of investments, translated into a decrease of the crediting demand, makes crediting institutions to stimulate the latter, this one being equivalent with a decrease of the interest rate, such measure orienting savings towards credit based investments, while the increase of investments, translated into an increase of the crediting demand, makes crediting institutions to take benefit of the same, this one being equivalent with an increase of the interest rate, such measure inhibiting credit based investments in favour of bank deposits.

- *The full employment* - the classical economists believed in the assumption that, due to the flexibility of wages, there will be always a balance between the labour demand (manifested by the economic agents requiring labour force) and the labour supply (manifested by the economic agents possessing labour force).

When a certain level of involuntary unemployment occurs, the decrease of the wage level will generate an increase of the labour demand, individuals being ready to work even for lower wages in order to buy the needed goods/services, therefore restabilising the equilibrium status.

- *The quantitative theory of money* - the classical economists agreed on the neutrality of money, transposed into the dichotomy between the real variables (production level, employment level, consumption level and so on) and the nominal variables (price level - for goods/services, labour provided, crediting or currency exchange), the increase of the money supply generating just an increase of the price level, not of the production one.

The **economic neoclassicism** represents an extension of the economic classicism, dating from the late $19^{th}$ century, which preserves many of the basic ideas of the same, despite of the extreme words - *marginal revolution* - used for indicating the transition from the economic classicism to the economic neoclassicism.