**Economics 1 Lesson 6: Economic Theories**

**Theories of Economics:**

Economists agree about some things, but there are many more things about which there are differences of opinion, sometimes extreme differences. Some of these are about how things currently work whilst others are about how things should work, and economists have been influential in arguing for change all around the world. In most political systems, the main parties will have different ideas on how the economy should function, and whilst specific issues can dominate one election; Brexit, health, immigration, gun control and so on, in most systems around the world, economics will be one of the main considerations for voters, and often the main consideration.

The different views on how things could be organised often revolve around theories, or views on the world that have been written and debated, often by university academics. Some of the most famous economic theories have undoubtedly changed world history, whilst others will in the future. It is impossible to discuss them all, but some of the main ones include feminist theories on economics, Marxist theories, the Neo-Classical school of thought, the work of Keynes, known as Keynesian economics, and others focusing on race, the environment and many more besides.

**Feminism (Feminist Economic Theories):**

Whilst feminism immediately suggests women, many of the ideas that **feminist economists** put forward would impact everyone, and the feminist aspect mainly comes from the fact that the theories are more aware of women than traditional economics. Traditional economics, for example, places no value at all on housework or childcare, yet even in the traditional arrangements that most families had in the 1960s and 70s of one male breadwinner, it would have been impossible for him to work without his wife looking after the children and the household chores. This way of thinking suggests that the economic earning power of that family comes from both parents, and it is not just dad putting food on the table, but a partnership with equal roles. In recent years, feminists have put forward a strong case for the value of work such as caring for elderly or sick relatives, which saves the state money, but is largely unpaid. They argue that the current carers allowance of £67.25 in the UK for 35 hours of care is effectively a poverty wage, especially as that is the maximum level, but you can get paid less. Many women who care for a parent have had to give up a paid job to do so, and feminist economists would place a greater value than £1.90 per hour on the time of a carer, male or female. Their central argument is that work traditionally done by women is undervalued, or not valued at all, despite the importance of it to the functioning of the economy.

Universal basic income (which we discussed when we look at Milton Freidman) is an idea that has increased in its exposure as a result of the Covid crisis, but which has been argued in favour of by feminist economists, such as prominent Scottish economist Ailsa McKay, for decades. One aspect of UBI is that it makes people financially independent, for example women in abusive relationships who feel that they cannot afford to leave as they have no independent income, despite creating the conditions in which their partner can work through childcare and housework. It also allows people to take time out to provide care for children or older relatives, and provides some sort of compensation to those who work part time in order to fit in picking up children and household work around their job. As this idea has gained more attention in recent years, the work of Ailsa McKay, who sadly died in 2014, and other economists, is gaining greater attention than ever.

**Marxism:**

One of the most influential figures in the 20th century was a man who died in the 19th century, **Karl Marx**, but whose ideas lived on beyond him. Marx was concerned with social class, and the way that the poorest in society were exploited by those who employed them. These employers owned the means of production, that is to say that these people owned the equipment or land required for working people to do their job, and so they were able to exploit these workers by giving them low wages and making huge profits. Marx argued that a more equitable system would allow the workers to be the owners and then everyone would be paid better and would not be exploited. HIs system was known as socialism, which he saw as a step towards an even more worker-owned system called communism. These ideas were central to events in China, Russia, Vietnam, Cuba and many other places, and had (indeed still have) their supporters all around the world – as well as many critics.

Modern day Marxist economists tend to work around the ideas of the **labour theory of value**, and surplus value, which in basic terms simply means that the profits of owners are the wages that haven’t been paid to workers. So workers make the product that makes the profits, but are only paid a fraction of the value of the products, which leaves them being exploited. Critics argue that owners take all the risks, such as starting a business, buying new equipment, launching new products and therefore have earned the rewards that come their way when their business is successful, but Marxists argue that this would not be possible without the labour, or work, of the workers. Marxist economics is concerned with the flaws of the capitalist system under which we live – **capitalists** being the people who invest their capital (money) into businesses. Perhaps the most high-profile economist today who is influenced by Marx in some of his views is Yanis Varoufakis, who briefly served in the Greek government during the Greek debt crisis, but was a powerful voice on the EU and on the migrant crisis.

**Neo-Classical:**

Neo-classical, or new classical, economics is the traditional theories of economics which trace their history back to Adam Smith. It is concerned with supply and demand, and the power of the market to find an equilibrium, and is the most widely accepted theory. It has many critics, but remains dominant, though it has adapted as understanding of some economic forces has changed through the years.

The main conclusions of **neo-classical economics** are that individuals are out to maximise their utility. That means that individuals try to have the best time, or consume the most or best products for their incomes, so they will make decisions based on being able to have the best life that they can. Another conclusion is that companies do the same thing – try to maximise their profits. The theory assumes that people and companies will act rationally, not necessarily as individuals, but that as a society people make sensible decisions based on the conditions that they live in. The theory also assumes that people have perfect information, which is by far the most controversial assumption, which means that people know what they want and know the prices that they should pay for this. Many people have criticised the idea of perfect information, but it is an important feature of neo-classical economics.

**Keynesian Economics:**

One of the most influential economists of all time is John Maynard Keynes, a British economist who became world famous around the time of 1930 Global Depression (a very severe global recession). He was already well known in Britain after resigning from the Treasury in disgust at the terms of the Treaty of Versailles with Germany, he argued that demanding such high levels of compensation for World War 1 (known as reparations) from Germany could only lead to another war later, as was evidently the case, and his book outlining his thoughts on this made him well known. His best-known work is around the idea of getting out of a recession, and the role of government in stimulating the economy to get it back to growth. He argued that during a recession the lack of demand from consumers, some of whom have lost jobs, or are keeping back money as they are unsure of their own situation, extends the recession because there is less economic activity, or spending, taking place. Keynes argued that during a recession, the government should act to stimulate, or increase, demand by investing money into the economy – basically that when the economy is doing badly, the government should spend more rather than less.

Keynes’ views were popular following the 1930s Depression, but also following World War 2, after which many countries invested in major building programmes to repair their country, but in so doing also grew their economy by providing jobs, which led to greater demand for products from those who were earning money. His views are so widely accepted now that most people accept that they form the **Neo-Classical Synthesis**, which is the traditional economic theories which have been in place for a long time, alongside Keynesian theories which whilst modern in economic terms, are taken to be established economic facts. This can be seen in how countries tacked the 2008 Global Financial Crash, with the major economies coming up with huge stimulus packages, for example Obama’s package led to the repair of roads and bridges across America, as well as increases in school spending and other budgets, creating more jobs for Americans, and therefore increasing demand for products which allowed the economy to grow out of the recession. Whilst the UK began down this path, the election of a Conservative-Lib Dem coalition in 2010 changed the UK to an austerity model, cutting back government spending. The US economy reached its 2008 level in July 2011, but it was not until July 2013 that the UK economy did the same suggesting that Keynes was right about increasing demand to grow out of a recession.

**Theories of Economics:**

There are other theories which have shaped economic thinking, and others which are yet to do so, but are likely to have a more prominent role this century. Threats to the global economic system, such as climate change, have led to calls for greater emphasis on the environment in economic system, either through how we measure economies, or in initiatives like Carbon taxes, which sound new but are based on centuries old economics. The cold factual nature of neo-classical economics has been challenged by feminists, leading to changes in government policies around the world, such as improving childcare provision, or instigating minimum wages, and this approach is likely to continue. Others exploring inequality, on issues such as race or disability, challenge assumptions about perfect information and just how stable it is for companies to prioritise profits over all else. Many companies now pursue equality in employment, sustainability in how they produce their products, and even the voluntary payment of above market rate wages (such as the “living wage” for traditionally minimum wage jobs) which does not appear rational to economists, but which makes perfect sense when you meet the owners of these companies who are passionate about these views, or when you factor in publicity and other benefits.

There are some things like charity that economics can find it hard to explain, or gets into a bit of an awkward state in doing so. Despite this, economics is one of the most important fields of study and dominates elections, governments and all of our lives. The opportunities open to you, the work that you will do, the life that you will lead, are all shaped by these forces, theories and the invisible hand which helps us to explain and understand the world in which we live. I hope that you have a better understanding of them than when you started this course, and that you enjoyed this introduction to economics.

**Economics 1 Task 6: Economic Theories**

Please complete this week’s task as a word document and return it as an attachment on teams. The document title should be PUPIL NAME Economics week 6.

**Part A:**

As this is the final week, the task is slightly longer, and this is reflected in the extended deadline. You have free reign to choose any topic for this task, though there are suggestions below, but your task is to produce a piece of research on an economic issue which builds on your knowledge from the course. You can decide on the length of this for yourself, but given the time allotted to it, I would expect to see at least 500 words. How you present it is up to you, a report with headings, one single written piece, or anything that makes sense for your chosen topic.

The 2008 Global Financial Crash

Economics ideas of Keynes vs Milton Freidman

Economics ideas of Karl Marx

Communism vs Capitalism

Economy of (choose country)

Universal Basic Income

A topic of your choice – ensure that you are focusing on the economics of the issue rather than the issue (economics of climate change etc)

**Part B:**

Well done if you have kept up a glossary of terms throughout this unit, it will serve you well if you ever return to study economics in the future. There are some final terms in bold in this lesson which you should use to complete the glossary.

**Further Reading:**

You will encounter your own further reading in the course of this task, but for general further reading on economics you should consider:

The Economist YouTube Channel (new videos every Thursday and 3 additional featured channels) – <https://www.youtube.com/user/EconomistMagazine/featured>

The Financial Times YouTube Channel – <https://www.youtube.com/user/FinancialTimesVideos/featured>

*Economist Radio* – Podcast of the Economist Magazine

*The Fraser of Allander Institute Podcast* (University of Strathclyde’s respected UK and Scottish economic research institute’s podcast)

*Growth Delusion: The Wealth and Wellbeing of Nations* – David Pilling

*Doughnut Economics* – Kate Raworth