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Economics — Is a Science Field About Effective Use of Limited Resources?

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Abstract: The article discusses three stages divided in the development of the subject of economic theory: the research about long-term historical development related to economy, political economy and economics and justification of typical features of their emergence. The methodology of the research — systematic approach and comparative analysis methods. The results of the research — Setting forth offers that fit in the background of innovative scientific-theoretical justifications based on the works and the researches by classical political economists. Limitations of the research — more extensive investigations are required in terms of scientific-theoretical grounds. Practical significance of the research — public production process must stand in the focal point of political economy, not wealth. Then price theory won't drive out value theory, theory of production won't drive out labor theory, and analysis of specific situations won't drive out abstraction theory. Originality and scientific innovation of the research — presented as one of the initial scientific-research justifications varied with its specificity for the investigation of classical political economists' ideas.

Key words: political economy; chrematistics; mercantilist; value theory; labor theory; orthodox Marxist political economy

JEL codes: F

Grounds were formed in the alteration of general paradigm of economic science in the second half of the XIX century. Capitalism rigorously proved itself in the developed countries. The development of general principles of political economy is substituted with the investigation of various problems of economic practice, quantity analysis is forced with quality analysis. The authors try to optimize limited resources, widely apply ultimate theory, differential and integral calculus for this. The pages of economic articles are filled with mathematical coefficient and graphs that describe various market situations. New tendencies are embodied in changing of the science's name. "Political economy" is forced with the concept "economics" (When political economy was mentioned in the West in the XX century, the analysis of economic policy as an independent field of economic science was understood, not economic theory on a whole). When economics is mentioned, analytical science about the use of limited resources for production of different commodities and services by people, their distribution and exchange among members of society for the consumption purpose is considered.

Coining of the new term is connected with the name of Alfred Marshall (1842-1924), English economist, one of the founders of neoclassical direction. His book "Principles of Economics" was published in 1890, and here the key subject of the analysis is price theory, not value theory. Price mechanism was viewed as the ratio of supply

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and demand. A. Marshall set forth marginalism — the idea about marginal physical productivity to the foundation of demand theory, and this has been developed in the works by W. Jevons, K. Menger, E. Bem-Baverk, F.Vizer, L.Walras and others; and he set forth factors of production theory to the foundation of supply theory, and later this has been completed with theory of ultimate productivity by C. B. Clarke. While classical political economists tried to reveal objective methods above all things, A. Marshall touched upon subjective assessment of entities ("freedom of choice").

Keynesianism: A. Marshall's theory factually became abstract from the activity of monopolies. It was impossible not to feel the influence of monopolies on pricing after economic crises in the 20-30s of the XX century, especially after the Great Depression in 1929-1933. In the years 1933 the work "Theory of Monopolistic Competition" by E. Chamberlin and "The Economics of Imperfect Competition" by C. Robinson were published where monopolistic price mechanism was investigated.

But the real revolution in economic theory was the work "The General Theory of Employment, Interest and Money" by John Maynard Keynes (1883-1946) published in 1936. Emergence of a new direction – Keynesianism that brings the problems of macroanalysis to the center of attention in Western economic thinking is connected with his name. This kind of approach not only caused more detailed reflection of objective reality in economic theory, but also brought normative aspect to dependence on positive aspect to a great extent.

Keynes rejects some main postulates of neoclassical system, especially viewing market as an ideal mechanism that regulates itself. In Keynes's point of view, market can't provide effective demand, therefore the state has to stimulate it by means of credit-monetary and budget policies. This policy has to inspire special investments and increase in consumption expenses in such a way that it can lead to faster growth of national income. Practical directing of Keynes theory brought him great fame in the post-war years. "The Keynesian Recipe" turned into ideological program of mixed economy and "Welfare State Theory".

In the early 50s of the XX century new Keynesians (R. Harrod, E. Domar, E. Hansen etc.) were actively developing problems of economic dynamics and first and foremost, growth paces and factors and trying to find out optimal ratio between employment and inflation. Accordingly, P. A. Samuelson's "neoclassical synthesis" conception that made an attempt to combine methods of market and state regulations was directed at it as well. Post Keynesians (J. Robinson, P. Sraffa, N. Kaldor etc.) made an attempt to add D. Ricardo's ideas to Keynesianism in the 60-70s of the XX century. New Ricardians support for more equal distribution of income, limitations on market competition, realization of events system for reasonable combat against inflation.

But in the 70s of the XX century despair period began in Keynesianism. The offered "recipes" weren't enough for strenghtening of inflation, decrease in production and putting an end to growing unemployment rate.

Keynesian paradigm couldn't completely oppress neoclassical theory. The attempt to combine both the paradigms in neoclassical synthesis form was unsuccessful, that is to say, it wasn't distinct with its completeness; it rejected microeconomics during the analysis of macroeconomic processes. Furthermore, new directions of neoclassics (Monetarism, new classical economy, social choice theory) significantly oppressed Keynesianism in the 70-80s of the XX century.

Monetarism: Monetarists began the first "attack". As classical liberalism on the whole, Monetarism views market as self-regulating system and resists to extreme intervention of the state to economy. The main feature of this direction was extreme attention to money in circulation which Monetarists consider decisive factor of the economy's progress. The prior clauses of the judgement became the top issues of economic policy (problems such as inflation, employment policy etc.). Initial grounds of this judgement were specified in the works "Essays in

Positive Economics" (1953), "Capitalism and Freedom" (1962) by Milton Friedman (1912-2006) and in the work "Free to Choose" (1979) later written together with Rose Friedman.

His methodology was neopositivism that tried to reconcile rationalism (thinking) with empiricism (practice). Friedman thinks that abstract hypothesis stands in the center of the theory and empirically checked results are established from that. If these are proved with practice, then theory is considered real, if not, vice versa. As Keynesians' practical offers were collapsed, their theory should have been removed too. But such consequence can happen for Monetarism as well, for this theory is dependent on numerous confirmations and facts that are against it can be found anytime. It is not that difficult to do this, because, several grounds of Monetarists are of unrealistic character (perfect competition, price elacticity, completeness of economic information, dependence of national income growth on money growth dynamics etc.).

New classical economy: While reasonable demand stands in the focal point of Keynesians, their critics direct their key attention to offers of commodity and services. In the 70s of the XX century even specific direction – supply economics was formed (A. Laffer, G. Gilder, M. Evans, M. Feldstein etc.). They think it is essential to reduce taxes and to make compromise to corporations in order to stabilize economy. In such condition, being decreased of state budget deficit will lead to stabilization of economy.

The members of leading directions of new classical economy or neoclassical economy (J. Muth, R. Lucas, T. Sargent, N. Wallace, R. Barro etc.) tried to set more complete theory by means of summarizing single microeconomic fundamentals based on the analysis of macro problems. Economic agents that can quickly adjust to changable economic conjuncture thanks to the effective use of the received data were in their center of attention. (rational expectations theory). As every individual is able to well adapt to the changing world, necessity for the state's intervention to economy is eliminated.

However, new classical economists don't assess the time factor correctly which is essential for data collecting and processing as well as various opportunities of getting information different subjects have. As a result, a housewife is more prompt in processing of economic data and elimination of uncertainty factor compared to professional economists and specialized state enterprises.

Social choice theory: The followers of social choice theory J. Buchanan, G. Talloek, M. Olson, D. Muller, R. Tollison, U. Niskanen and others that was formed in the 50-60s of the XX century tried to remove this shortage. The followers of this theory put the effectiveness of state intervention to economy under question criticising Keynesians. They gradually interfered actively to the field which is traditionally considered the activity field of political scientists, lawyers and sociologists by using classical liberalism principles and marginal analysis methods, and this was called economic imperialism. Criticising state regulation, the supporters of social choice theory made the passing process of government decisions their object of analysis, not the influence of credit-monetary and financial events to economy.

The main grounds of them consist of the idea that people function in political sphere due to their personal interests and there is no impassable boundary between business and policy. That's why members of this school reveal the legend about the state whose care is only public interests. So social choice theory made an attempt to implement individualism principle more continuously, ascribed that not only to commerce activity, but also to the state.

But social choice theory couldn't overcome certain abstractness of neoclassical paradigm on a whole, and first and foremost, its out of history character.

Interest towards institutional researches has recently increased. This is partially related with attempts to overcome the limitations put on some conditions (*total efficiency, the axioms of perfect competition, balance creation by means of only price mechanism etc*.) referred to economics and to overall consider modern economic, social and political processes, and partially related with effort to analyze the cases happened in the STP period, thus, applying traditional investigation methods to these doesn't yield in desired results. Therefore, let's first take a look at how the conditions of neoclassic theory develop inside it.

There are the following terms that are common for non-institutionalists: first, social institutions are of importance and secondly, they are analyzed with the help of standard means of microeconomics. In the 1960-70s American economist G. Becker's (1930) "economic imperialism" appeared. In this very period economic conceptions such as maximalization, balance, efficiency, education, family relationship, healthcare, criminality, politics began to be actively applied in areas that were complicated for economy. This led to the case that neoclassic ground economic categories found more detailed interpretation and its apply in more extensive sphere.

When institute is mentioned in contemporary theory, "rules of the game" or limited frames "established by humans" in society are understood, and these form mutual relations between people and events system that provide the fulfillment of them. They create structure that obliges people to mutual activity, they form daily life and decrease uncertainty.

Schematic description of mutual relations among society, institutes and economy has been given below:

Society ⇄ **Institutes** ⇄ **Economy**

Institutes are classified as formal (*for instance. The US Constitution*) and informal (for instance, Soviet "telephone law"):

<u>When informal institutions are mentioned</u>, generally accepted conditionality and ethical rules of human behaviour are understood. These are customs, "laws", habits or normative rules that are the result of people's dense co-existence. Thanks to them people easily learn what the people around them want and understand one another better. Culture forms these behaviour codex.

<u>When formal institutions are mentioned</u>, the rules created and supported by people who were especially appointed to this (*state officers*) are understood.

As the society develops, changes in both formal and informal rules and in method and efficiency of obligation to carry out rules and limitations are possible. Changes in formal rules (*or in mechanisms that provide their apply*) usually require resource costs that are important enough.

Economic subjects can direct their talent and knowledge to the search for reasonable opportunities by means of establishment of both main and intermediate organizations, and this can function in economic and political areas. The main thing is their providing required changes in formal rules. Economic changes can happen fast enough (as in *revolution or achievement periods*). And informal rules happen gradually. The pace of changes is completely different here, culture, coincidence and natural choice play the key role.

Emergence of institutes as a consqeuence of clash of new and old, formal and informal rules has different possible variants.

In institutionalist changes organizations play an important role. Organizations are groups of people that get together for achieving a goal, in the broad sense. Organizations and their leaders form the direction of institutional changes to maximalize the income. Changes have two main strategies: one is conducted in the frame of existing limitation, and the other requires the change in the limitations themselves.

Reasonable rules are certainly the ones that isolate unsuccessful actions and support the successful ones, they cause the very economic growth.

Here naturally comes the question: why are unreasonable forms kept? Which factors provide the existence of economies with continuous low parameters of activity? What is the reason behind the isolation of new economy forms? How much is the role of trajectory of previous progress? Do unreasonable technologies and thrift forms find enough followers only with occasional events?

As institutional system creates both productive and non-productive stimuli for organizations in any economy, national economy reflects the combination of several development tendencies. If counter connection is incomplete, transaxion costs are big, then the direction of the improvement will be formed with the subjective models of players. Different institutional limitations and distinct institutional tricks are defined here. Douglass North, American economist (*1920*) sets forth all these questions in his work "Institutions, Institutional Change and Economic Performance".

Thus while analyzing scientific justifications of upgrading of the strategy related with institutionalism, there appears such a conclusion that institutes act as events system providing mutual relations between people and also their fulfillment. They establish structure that lead people to mutual activity, and reduce uncertainty constituting daily life.

The conclusion. In the period of the development of economic theory its subject was determined for many times. As its subject, Mercantilists considered activity that was related with foreign trade and money flow to the country. Classical political economists viewed it as a science about wealth. Members of historical school defined it as a science about the people's daily activities. Marxists have concluded in such a result that political economic studies laws that run production, distribution, exchange and consumption of life welfare and economic methods of this development in different stages of human society's improvement by investigating social reproduction, dialectics of production forces and production relations. Marginalists and neoclassic economists related this activity with the use of unique (limited) resources in market economy atmosphere. Keynesians added the importance of studying and formation of the state's economic policy to this, institutionalists paid attention to social aspects of this policy. However, economic theory enables us to reveal historical characteristics of systems, to understand development methods of world civilization.

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