

CLASSICAL POLITICAL ECONOMY TO NEOCLASSICAL ECONOMICS

- MARGINALISTS -

1870...

- Stanley Jevons (1853-1882)
- Carl Menger (1840-1921)
- Léon Walras (1843-1910)
- Alfred Marshall (1842-1924)
 - Marginal utility
 - Marginal cost
 - Marginal revenue

Reminder...

Classical political economy proposes...

- 1) An analysis in terms of social classes which leads to conventional focus on distribution problems
- 2) A belief in the existence of natural laws
- 3) A definition of capital as “cash advance”
- 4) A “principle of harmony of interest” which can be summarized by the formula “the selfishness of each is the condition of general prosperity”. This belief leads to principle of laissez-faire
- 5) The acceptance of the Malthusian Theory of population
- 6) A reference common to the work of Smith, whose central thesis is being against mercantilist way of trade is accepted
- 7) The adoption of Say’s Law
- 8) Usage of the theory of labor value
- 9) A deductive method, abstract, often dismissive of history (less dismissive than neoclassical theory of course)
- 10) The adoption of the “law of diminishing returns”

In general... there is a focus on...

- 1) The interest of growth and development
- 2) The distribution of income between labor, land and capital in the form of wage, rent and profit
- 3) The concentration on the cost of production as the main determinants of prices
- 4) The attitude of non-intervention

CLASSICALS

1) Inductive

Generalizing from real historical experience

2) Dynamic and developmental

Bound up with change and development

3) Equilibrium as the averaging out of ceaseless fluctuations

4) Strong roots in sociology (ex: the conflict of interest between social classes)

5) Introduces emergent categories like social class

6) Market relationships as expedient means to the end of national wealth and prosperity

NEOCLASSICALS

1) Deductive

Striving to explain experience within the framework of a set of pre-determined axioms

2) Static and allocational

Bound up with the concept of efficiency

3) Equilibrium as actually being attained approximated in reality

4) Strong roots in utilitarian philosophy

5) Introduces individual action of the simple combination actions.

6) Market-determined allocation as an end in itself.

The 8 characteristics of Marginalist Thinking (Kurz, pp. 57-66).

- 1) A new definition of the field.
- 2) A purely subjectivist theory of value and distribution
Also, a comparison between a given situation and a hypothetical alternative situation.
- 3) The production side and the consumption side in almost complete analogy with each other, with similar laws prevailing in both spheres.
- 4) All economic problems as 'constrained optimization problems'.
- 5) Ceteris paribus assumption
- 6) The possibility of substitution
- 7) Only a single market is examined

The theory of labor value

- ✓ Prices are determined by costs at the level of the minimum long-run average cost. They are independent of demand.

Horizontal long-run supply schedule. Costs are independent of total output, as they are, in the long run, with constant returns to scale in an industry

Cost theory of price

- ✓ Relative prices are determined by the relative costs of production of different commodities.

Marginalist Revolution?

- One of the most curious turn of events in the history of science and the history of economics.
- Marginalist doctrine sees itself as an extension of Ricardo's logical method and of his theory of rent.
- They rejects the theory of labor value.

CLASSICALS

DIAMOND-WATER PARADOX

NEOCLASSICALS (MARGINALISTS)

DIAMOND-WATER PARADOX

Journals

- *Quarterly Journal of Economics*, established in 1886
- *Economic Journal*, established in 1890
- *Journal of Political Economy*, established in 1892

William Stanley Jevons (1835-1882)



His life – aloofness as a way of life (1)

- Born in England in 1835
- Mathematics, biology, chemistry, and metallurgy
- Job as assayer at the Sydney Mint – move to Australia at the age of eighteen (stayed there for 5 years)
- Return to England in 1859
- Studies at the University of London – obtained a degree in 1865

His life – aloofness as a way of life (2)

- 1876 – numerous bouts of nervous and physical exhaustion
- A professorship in political economy at University College of London.
- *Principles of Economics (1880)*
- *1882 – dies*

His work

Several communications to the British Association (1862):

“Notice of the General Theory of Political Economy”

“On the Study of Periodic Commercial Fluctuations, with Five Diagrams ”

Pure Logic (1863)

The Coal Question (1865)

The Theory of Political Economy (1871)

The Principles of Science (1874)

The Solar Period and the Price of Corn (1875)



The
THEORY
of
**POLITICAL
ECONOMY**

PALGRAVE CLASSICS IN ECONOMICS

WILLIAM STANLEY
JEVONS

A Paradigm shift

- The decline of credence in the classical paradigm
 - Why he doesn't use the theory of labor value?
- **The utility theory** was introduced in England
- Jevons's *Theory of Political Economy* (1871)

Demand & supply

- « The laws of supply and demand are thus a result of what seems to me the true theory of value and exchange »
- Utility as a source of value
- Jevons well-known catena :
 - **Cost of production** determines **supply**
 - Supply determines final degree of **utility**
 - Final degree of utility determines **value**

Fondation of utility analysis

A theory of exchange

A theory of labor supply

A theory of firm

The laws of supply and demand (Fleeming Jenkin)

The discovery of marginal utility (Jules Dupuit)

The marginal utility

A unit of pleasure or of pain is difficult even to conceive; but it is the amount of these feelings which is continually prompting us to buying and selling, borrowing and lending, labouring and resting, producing and consuming; and it is from the quantitative effects of the feelings that we must estimate their comparative amounts. We can no more know nor measure gravity in its own nature than we can **measure a feeling**; but, just as we measure gravity **by its effects** in the motion of a pendulum, so we may **estimate the equality or inequality of feelings by the decisions of the human mind** (Theory of Political Economy, p. 11)

Measurement, exact measurement of a subjective maximum utility

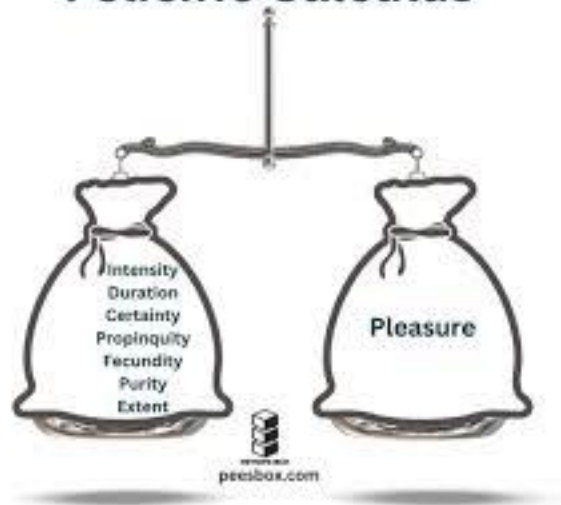
- Jevons set out the new core of economics in utility terms.
- How?

The influence of Bentham

https://www.youtube.com/watch?v=sxca2vbWK5s&ab_channel=PhilosophyVibe

- 1) intensity
- 2) duration
- 3) certainty or uncertainty
- 4) nearness 5), 6) , 7).....

Felific Calculus



Pleasure can be 'scientifically' calculated according to the following 7 criteria of the Felific Calculus

1. DURATION



How long will it last?

2. INTENSITY



How intense is it?

3. PROPINQUITY



How near or remote?

4. EXTENT



How widely it covers

5. CERTAINTY



How probable is it?

6. PURITY



How free from pain is it?

Felific calculus

✧ Pain = the negative of pleasure

Pleasure – pain = net pleasure

✧ Anticipated feelings

✧ How time preference and anticipation permeate economic quantities?

“**Pleasure** and **pain** are undoubtedly the ultimate object of the **calculus of economics**. To satisfy our wants to the utmost with the least effort – to procure the greatest amount of what is desirable at the expense of the least that is undesirable – in other words, **to maximize pleasure**, is the problem of economics. But it is convenient to transfer our attention as soon as possible to the physical objects or actions which are the source to us of pleasures and pains ” (*The Theory of Polical Economy*, p. 101).

“Utility must be considered as measured by, or even as actually identical with, the addition made to person’s **happiness**” (*Theory*, p. 106).

- Utility can not be measured and can not be compared interpersonally.
- But WE WILL ASSUME THAT IT CAN... FOR PRACTICAL PUROPOSES WE WILL CONSIDER IT LIKE THAT.

“The cares of the moment are but ripples on the tide of achievement and hope. We may safely call that man **happy** who, however lowly his position and limited his possessions, can hope for more than he has, and can feel that every moment of exertion tends to realize his aspirations. He, on the contrary, who seizes the enjoyment of the passing moment without regard to coming times, must discover sooner or later that his stock of pleasure is on the wane, and that even hope begins to fail” (*Theory*, p. 35).

For Jevons

- Maximising pleasure is the object of economics
(Humans seek to procure the 'greatest amount of what is desirable' at the expense of the least that is undesirable)

(personal parenthesis/critics : "Why is 'more' always better if it can never be enough?" - David Loy, Zen teacher)

➔ Making this proposition more objective by attaching it to something more concrete **such as commodities**

What is commodity?

“An object, substance, action, or service which can afford pleasure or ward off pain”

“Abstract quality whereby an object serves our purposes, and becomes entitled to rank as a commodity”

“Anything which an individual is found to desire and to labour for must be assumed to possess for him utility”

In *The Theory of Political Economy* (1871)

Microeconomic questions makes **utility maximisation** the goal of economic behaviour. To be able to treat it the concept of “**marginal**” and mathematics are used as analytical tools.

How to maximize utility?

- 1) Allocating stocks of good between **different uses in the best possible way**
- 2) **Exchanging good** with other people
- 3) Working to produce goods through **employing capital**

What is Utility?

Jevons clearly specified that **a utility function** is a relation between the commodities and individual consumes and an act of individual valuation. Utility is not, in sum, an intrinsic or inherent quality that things possess. Instead, utility has meaning only in the **act of valuation**.

- 1) The clear distinction between **total utility** and **marginal utility**
- 2) The **nature** of marginal utility (degree of utility)
- 3) The establishment of the **equimarginal principle**, as it relates to alternative uses of the same commodity and the choices between these commodities

Jevons law

The degree of utility for a single commodity varies with the quantity possessed of that commodity and ultimately decreases as the quantity of that single commodity increases.

➔ the equimarginal principle

Theory of labor supply

- Definition : « any painful exertion of mind and body undergone partly or wholly with a view future good »
- The concept of « net pain from work »
- Net pain from work
 - Amount of production
 - Amount of utility gained

The worker will stop producing when **the net pain of working** is equivalent to **the degree of utility of the real wages produced**.

The value

- Jevons failed to recognize that in his economic analysis that supply and demand mutually determine prices
- Marshall did