

Chapter Eight: The Classical School – Bentham, Say, Senior, and Mill (pg 121-148)

Jeremy Bentham (1748-1832, English)

Oxford, and the law, became a scholar very young

Utilitarianism

Hedonism – the principle that one should seek pleasure and avoid pain

Dates back to Greek times

Utilitarianism – the greatest good for the greatest number of people

Basically, a social theory of Hedonism, that balanced its selfishness

Pure, selfish hedonism came at the expense of others.....

So it had to be balanced by society

Utility – the balancing of pain and pleasure

Bentham's ideas implied many social reforms, when combined with

Bentham sought to construct a “new moral philosophy” based on this....

Diminishing Marginal Utility of Wealth

As wealth increases, the marginal increase in utility from it decreases

So money has declining marginal utility

Implications

Total happiness can be increased, and that is government's role

The state should serve the people

Wealth redistribution could easily increase happiness

Note: Bentham still believed individuals knew their own minds best

But he was not blindly laissez-faire

When ind. Interests not harmonious

Govt. intervention to impose harmony

He supported: national money, universal (male) suffrage, public schooling, wealth redistribution, frugality banks, prison reform, etc.

Criticisms

Economic problems – the comparison of Utility

Utility is necessarily subjective

How to make interpersonal utility comparisons?

Ordinal vs. cardinal utility comparisons

Philosophical problems

Is “pleasure” the only measure of value that is correct

Quantity vs. quality of pleasure

“better to be a dissatisfied human, than a satisfied pig”

Rival philosophies to explain many things...

Ultimately, we all seem to make “aesthetic” judgments about things

Legacy

“I have planted the tree of Utility. I have planted it deep and spread it wide”

Jean-Baptiste Say (1767-1832, French)

Popularized and translated Smith

Very laissez-faire, inactive during Napoleon's years, active afterwards

Value theory, Costs of Monopoly, and Entrepreneurship

Rejected labor theory of value

Instead, used a supply and demand theory later used by Marshall

Used terms imprecisely though....

Discussed and analyzed monopolies

Saw that they were inefficient (deadweight losses, Robinson)

Saw that they were "created" (rent-seeking, Tullock and Buchanan)

Reintroduced entrepreneurship to the discussions....

Say's law of Markets

Believed that generalized overproduction is impossible

Say's law: "supply creates its own demand"

This came to be uncritically accepted by later economists

In the long run, it seems to be true....

But in the short run, Keynes asserted it is not

Say's analyses retarded the development of business cycle theory for decades

Nassau William Senior (1790-1864, English)

First to explicitly try and make economics a "positive" science

Examples of "Positive and Negative Science"

Seniors four Laws of Economics

- Principle of income or utility maximization
- Principle of Population
- Principle of Capital accumulation
- Principle of diminishing returns

These four principles are important, because they have been empirically verified

Future economic laws should be based on them.....

Abstinence

Senior added this term to discuss postponed consumption

(Marshall renamed it waiting)

He recognized that production also was associated with subjective costs

If somebody saves, that money becomes invested

Say's law applies to investment and savings

Interest rates coordinate the two

Because both are subject to diminishing returns

Productive Labor

Disagreed with Smith, about how the services were "unproductive"

Services, in Senior's view, could be productive

Example of the bolt factory

Senior believed in productive and unproductive consumption

Policy Positions

Very laissez-faire, but not really positive economics

John Stuart Mill (1806-1873, English)

Early life: father denied the role of genetics in human potential
Mill was a boy wonder, pushed to be one by dad
Greek 3, latin 8, calculus 12, history of rome 11, edited 5
volumes of Bentham's works at 18, publishing own work at 19,
Nervous breakdown at 20

Mill highly modified the utilitarianism of Bentham, he thought it limiting
Some things, we pursue for their own intrinsic value
Example: "Honor", or "Truth"
Wrote a 5 chapter textbook – Principles of Political Economy

Production

Three important factors – land, labor, capital
Labor is all productive, both production and services
Only labor that is immediately consumed is unproductive
Clergymen, saving your friends life
Unproductive labor may still be desirable
Capital can lead to prolonged growth
More capital can absorb labor
Labor can grow to accommodate new capital
Labor (population) limited by the fear of want, not by want
(rational expectations)
Capital can have increasing returns to scale.....
Led to short run and long run analysis by neoclassical econ

Distribution

Mills argued production based on physical laws
But the distribution of that production depended upon human institutions
Neglected the role of institutions in the process
He thus challenged the Ricardo assumption of "natural laws"

Wage fund

He assumed the wage fund as did other classical economists
Minimum wage laws thus were doomed to fail
In modern terms, he assumed unitary elasticity of demand for L
The wage fund is backwards looking, past harvest pays for next one
But actually, wages are based on future expectations
Opposed unionization, for same reasons as opposing min. wage

Profit: further refined it, superintendence, interest, insurance,
Education: could lead to higher wages
Human capital in modern terms

Exchange

Price expresses the value of things relative to money
Prices can rise, a general rise of values is not possible
Differing quantities are valued at different rates
Led to the concept of a Demand Schedule
Demand, vs. the quantity demanded
Had a definite concept of elasticity

Influence of the progress of society on production and distribution

Of the Influence of Government