

# GENERAL ECONOMIC THEORIES

# NEOCLASSICAL REGIONAL ECONOMICS

# KEYNESIAN REGIONAL ECONOMICS

5RE254 Regional Economics

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EVROPSKÁ UNIE  
Evropské strukturální a investiční fondy  
Operační program Výzkum, vývoj a vzdělávání

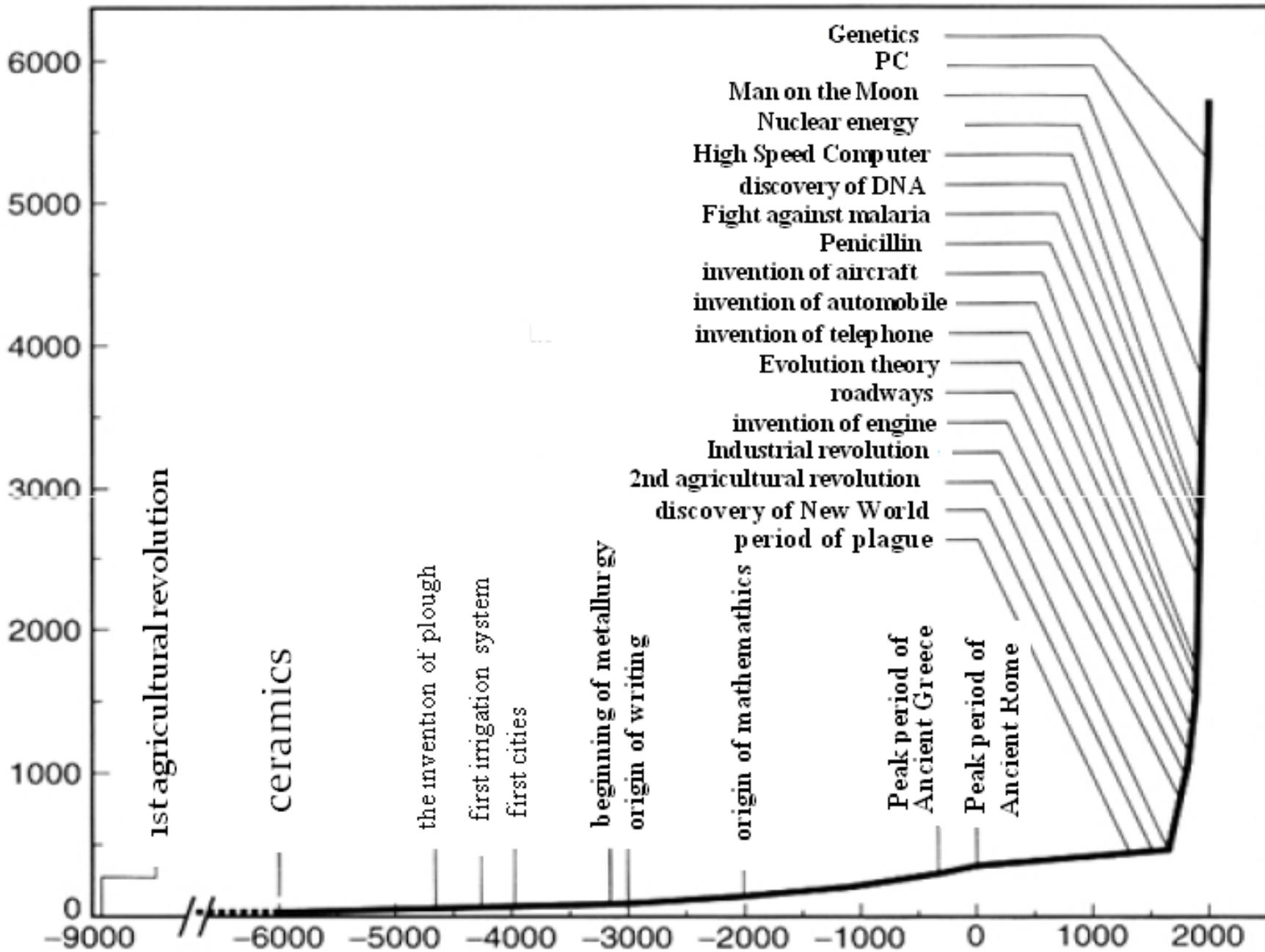
**MŠMT**  
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# EVOLUTION OF ECONOMIC-POLITICAL THEORIES AND THINKING

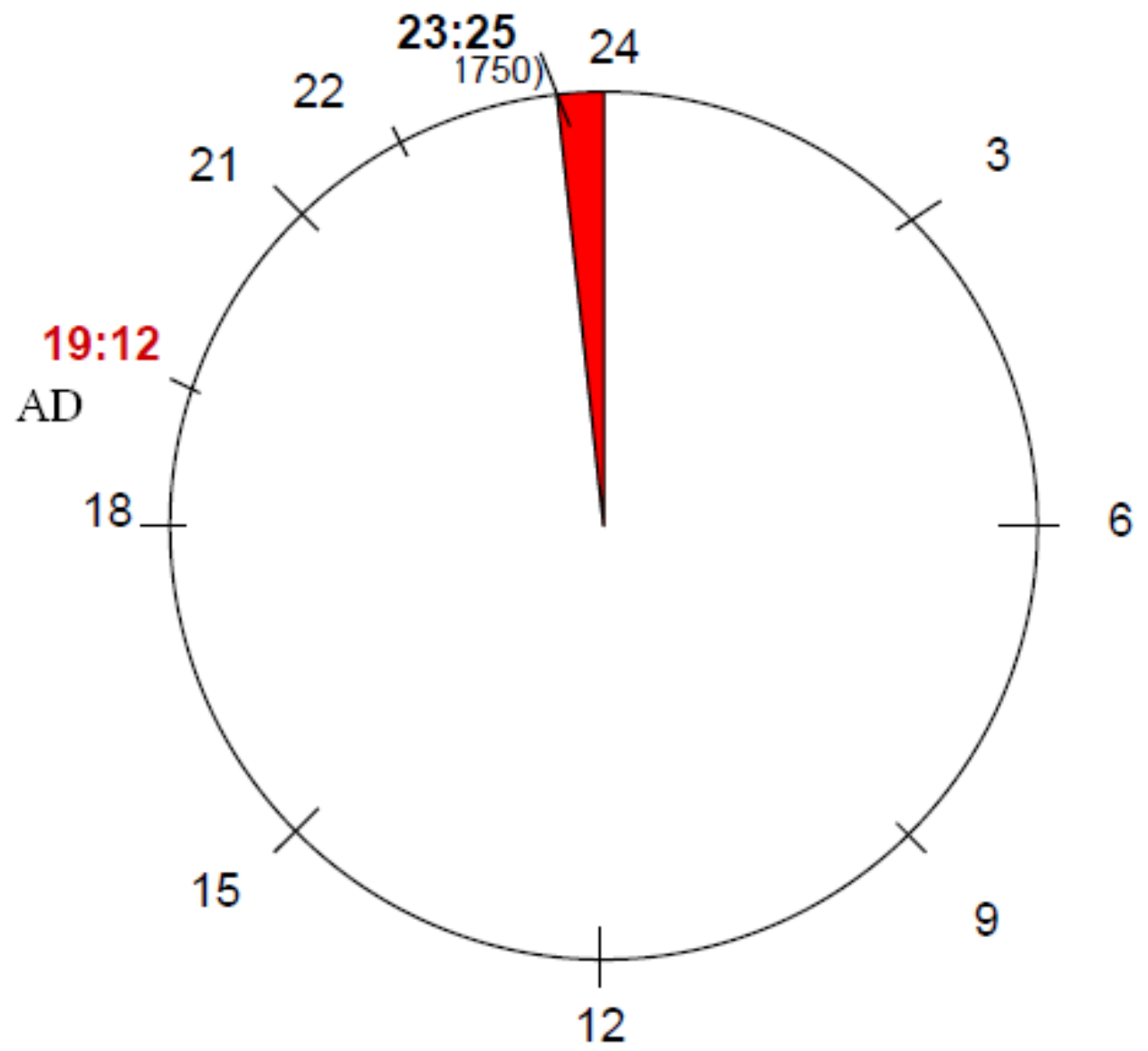




Genetics

Population (mil.)

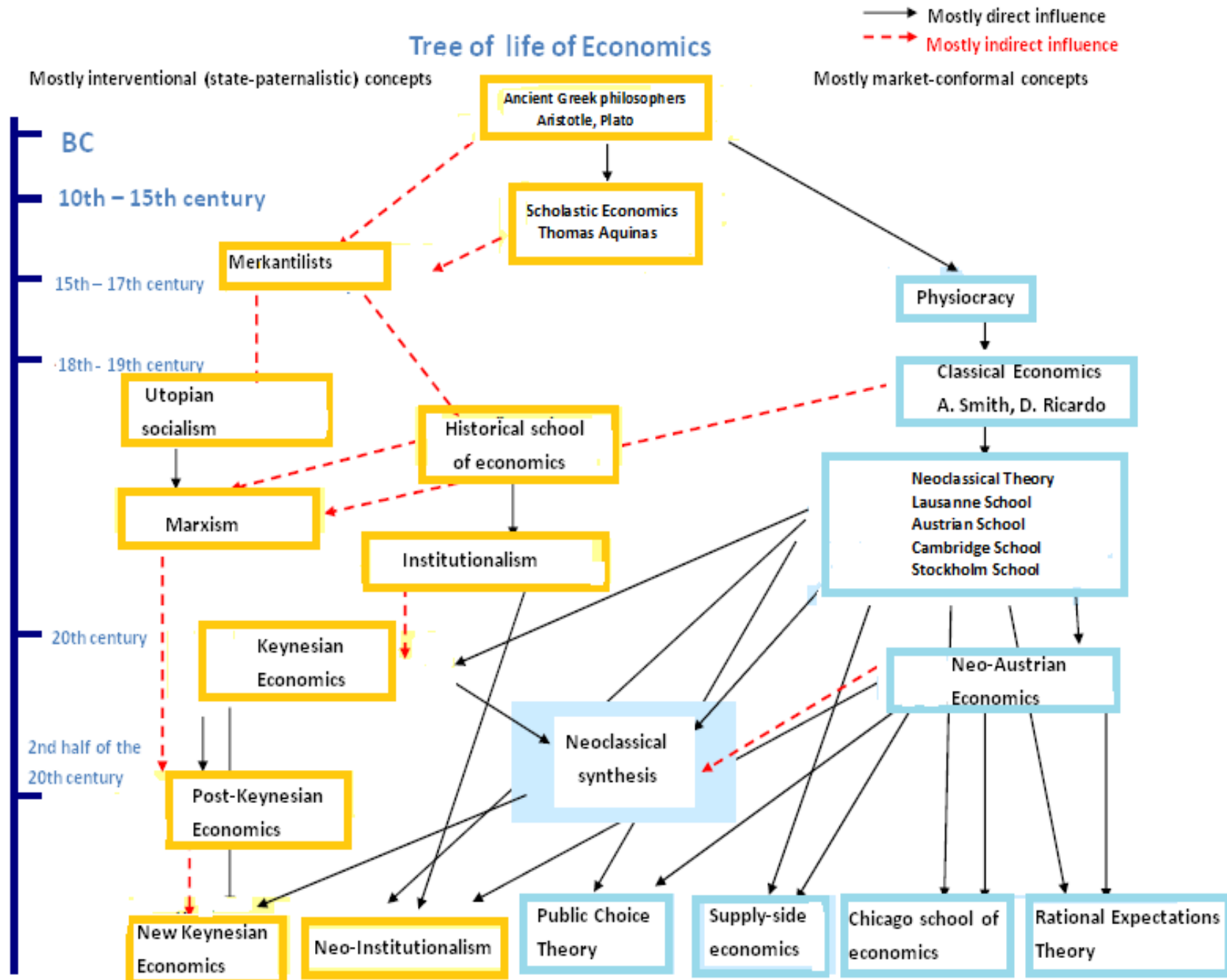


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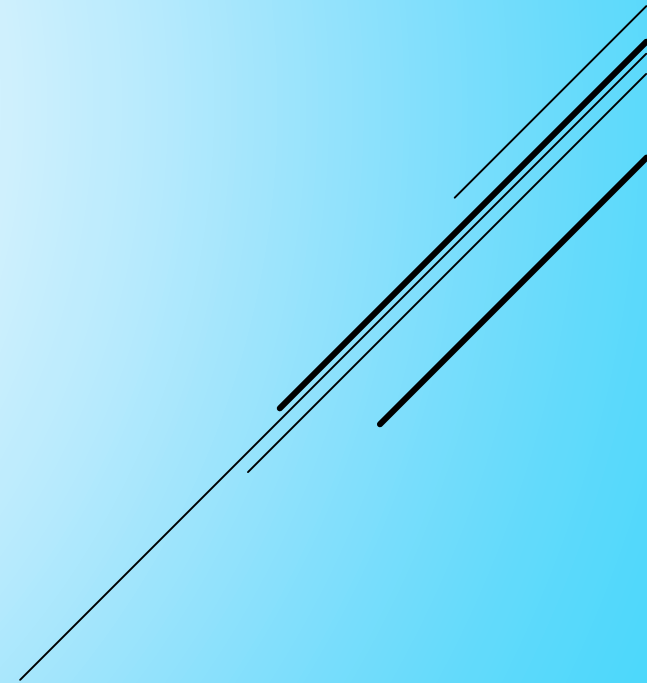


-  modern economic evolution (since 1750)
-  civilization period of human race (cca 10000 years)

# Tree of life of Economics



- ▶ Many theories, changes in times
- ▶ Can be divided into two branches:
  - mostly interventional (state-paternalistic) concepts
  - mostly market-conformal concepts



*A study of the history of opinion is a necessary preliminary to the emancipation of the mind.*

**John Maynard Keynes**





*Every individual... neither intends to promote the public interest, nor knows how much he is promoting it... he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention.*





# CLASSICAL POLITICAL ECONOMY

- ▶ Adam Smith: *Invisible market hand, Laissez faire; Theory of Moral Sentiments)*
  - ▶ Thomas Malthus: *Population Theory*
  - ▶ Jean B. Say: *Say's Law of Market*
  - ▶ David Ricardo: *The Law of Comparative Advantages*
  - ▶ John Stuart Mill: *Theory of International Trade*
- 

# NEOCLASSICAL ECONOMICS

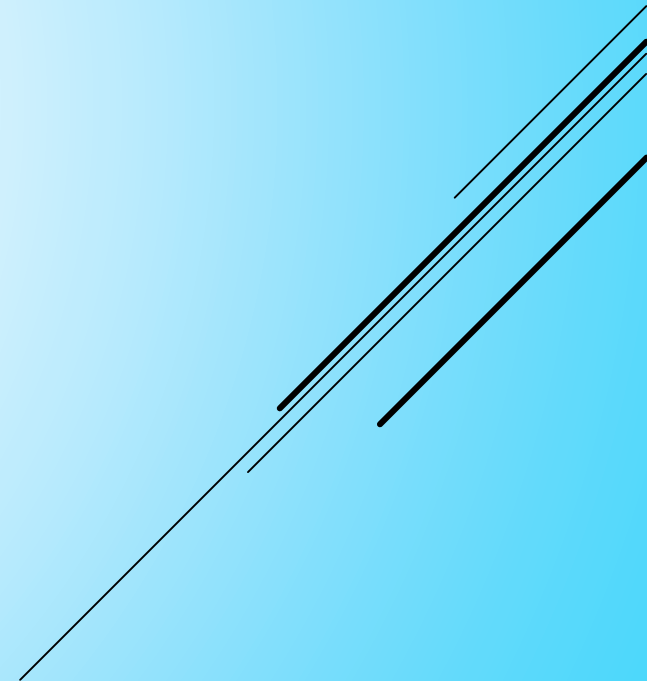
- ▶ Cambridge school, Lausanne school, Marginalism
  - ▶ Alfred Marshall: *marginal utility, marginal costs, consumer and producer surplus*
  - ▶ **Arthur C. Pigou**: *private/social benefits and costs, externalities*
- 

# NEOCLASSICAL ECONOMICS - ASSUMPTIONS

- ▶ Microeconomic basis – individuals' (human or enterprise) behaviour
  - ▶ Mathematization of economics (symbols, variables, exact definitions)
  - ▶ Rationality (homo economicus)
  - ▶ Perfect mobility of factors of production
  - ▶ Perfect competition, perfect information
  - ▶ Population size and technology are constant and exogenous
  - ▶ Methodological individualism
- 

# NEOCLASSICAL ECONOMICS AND REGIONAL ECONOMICS

- ▶ No consideration of regional disparities
- ▶ State interventions not effective (selfregulation of economy)
  
- ▶ Path dependance theory
- ▶ Growth accounting
- ▶ Localization theories
- ▶ New economic geography
- ▶ New growth theory

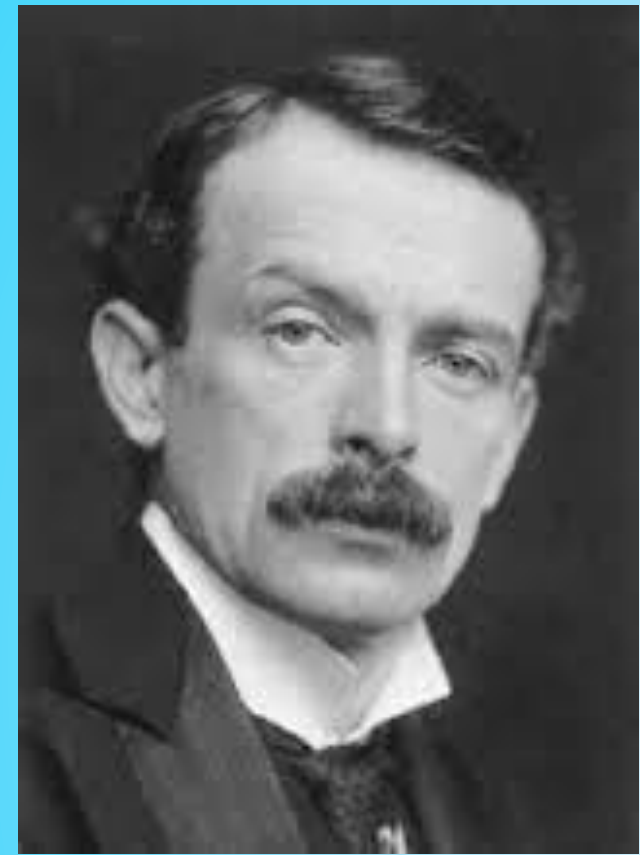


# FROM SMITH TO KEYNES

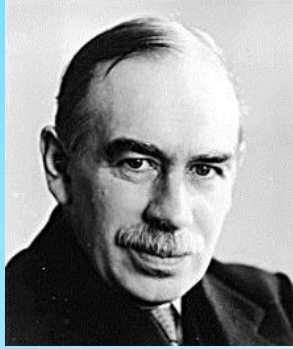
- ▶ UK in the 1920s and 1930s – an „experimental laboratory“ of economic theory and economic policy
- ▶ Great Depression (1929 – 1933 (1939) – 25% unempl. rate

*From the „invisible hand of the market“ to the „visible hand of the state“.*





*CAPITALISM IS THE EXTRAORDINARY BELIEF  
THAT THE NASTIEST OF MEN, FOR THE  
NASTIEST OF REASONS, WILL SOMEHOW  
WORK FOR THE BENEFIT OF US ALL.*



# JOHN MAYNARD KEYNES

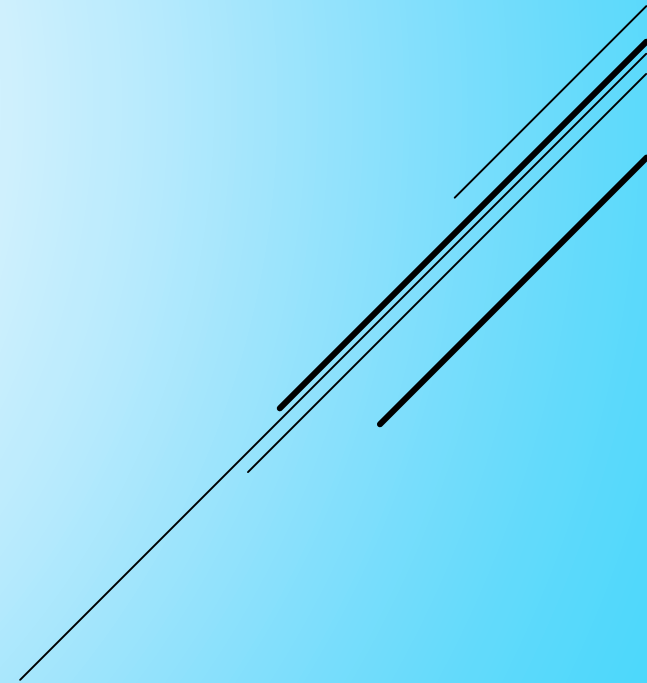
- ▶ Economic Consequences of Peace (1919), Treatise on Money (1930), The General Theory of Employment, Interest and Money (1936)
- ▶ the principle of effective demand, the multiplier, liquidity preference and liquidity trap, consumption function

# THE GENERAL THEORY AND ECONOMIC POLICY

Visible hand of the state – effective demand and full employment

- ▶ Progressive income taxation
- ▶ Monetary policy – low interest rate
- ▶ Government spendings

*In the long run we are all dead.*  
John Maynard Keynes



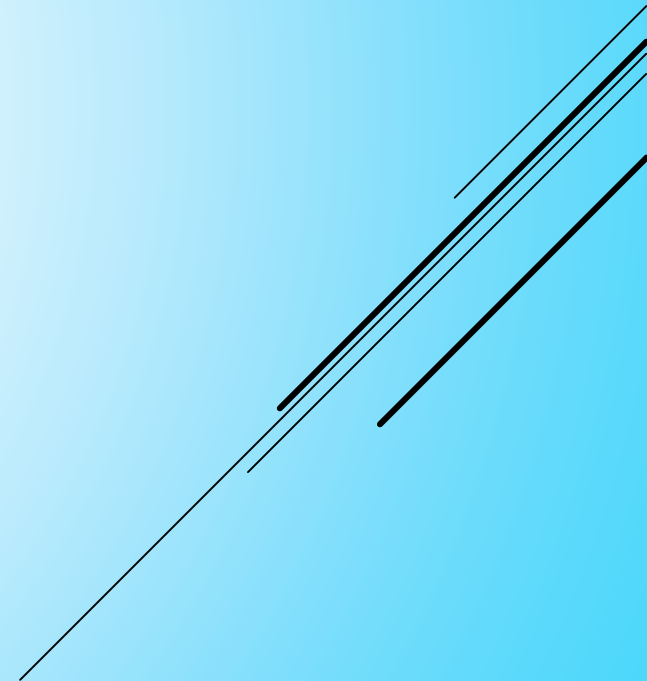


# KEYNESIAN ECONOMICS - ASSUMPTIONS

- ▶ No selfregulation capability of economy
  - ▶ The cause of disequilibrium – divergence between savings and investment
  - ▶ Analyses of macoeeconomic quantities – rate of unemployment, interest rates, production, aggregate demand
  - ▶ High level of uncertainty
  - ▶ Inflexibility of prices and wages
  - ▶ Distaste to mathematization
- 

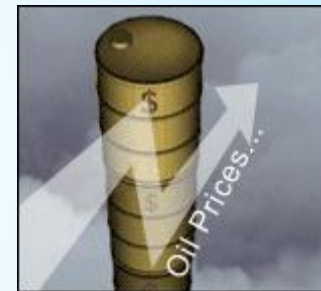
# KEYNESIAN ECONOMICS AND REGIONAL ECONOMICS

- ▶ High level of public sector interventions
- ▶ High level of redistribution
  
- ▶ Export base theory
- ▶ Harrod-Domar growth model
- ▶ Growth poles theory
- ▶ Theory of cumulative causation
- ▶ Theory of unequal development
- ▶ Theory of polarized development



# FROM STABLE GROWTH INTO THE OIL CRISIS

1970s – stagflation – crisis of Keynesian economics



New economic streams:

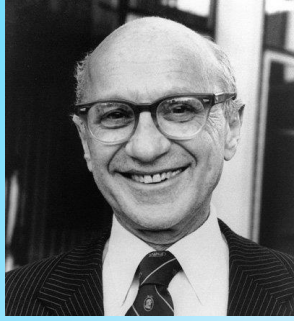
- ▶ New Keynesian Economics
- ▶ Post Keynesian Economics
- ▶ New conservative streams (Anti-Keynesian revolution)

# CHICAGO SCHOOL

- ▶ Absolute belief in free markets
- ▶ Liberalism
- ▶ Scepticism to state interventions
- ▶ Low effectiveness of fiscal policy, High effectiveness of monetary policy
  
- ▶ Methodological positivism

*Frank Knight, Milton Friedman, George Stigler, Henry Simons, Gary Becker,  
Theodore Schultz*





# MILTON FRIEDMAN AND MONETARISM

- ▶ A Theory of the Consumption Function (1957), Inflation Causes and Consequences (1963), Capitalism and Freedom (1962), Free to Choose (1980)
- ▶ Consumption Function, Permanent Income Hypothesis, New Quantity Theory of Money, Natural rate of unemployment

*If you put the federal government in charge of the Sahara Desert, in 5 years there'd be a shortage of sand.*  
**Milton Friedman**

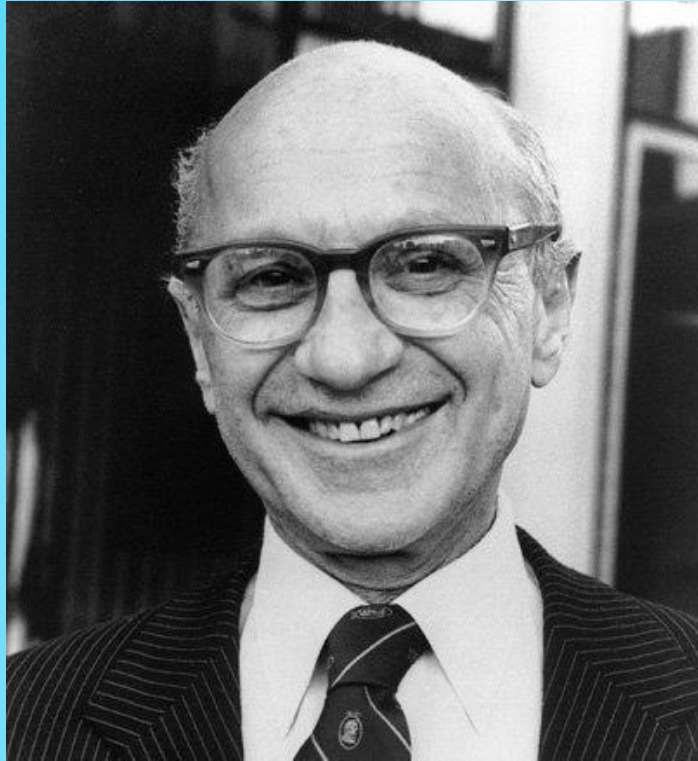
*The government solution to a problem is usually as bad as the problem.*  
**Milton Friedman**



# MONETARISM „MONEY MATTERS“

- ▶ Differentiated stream that refuses Keynesian economics (oldest)
  - ▶ Quantity Theory of Money
  - ▶ Stable private sector
  - ▶ Flexible market and long-term period
  - ▶ Transmission Mechanism
  - ▶ Rational expectations

*A. Meltzer, K. Brunner, J. Jordan, L. Metzler, T. Mayer, H. Frisch*



*GOVERNMENTS NEVER LEARN. ONLY  
PEOPLE LEARN.*

▶ Milton Friedman - Greed

[HTTPS://WWW.YOUTUBE.COM/WATCH  
?V=RWSX1X8PV\\_A](https://www.youtube.com/watch?v=RWSX1X8PV_A)





# THEORIES OF ECONOMIC REGULATION

- ▶ From the 1960s market failures were used to legitimise direct government involvement to the free market environment.
- ▶ **„Public interest theory“**: regulatory intervention occurs in the interest of the public at large (Joskov and Noll 1981)
- ▶ **„Private interest theory“**: **„regulatory capture“** (George Joseph Stigler), Peltzman 1976, Becker 1981



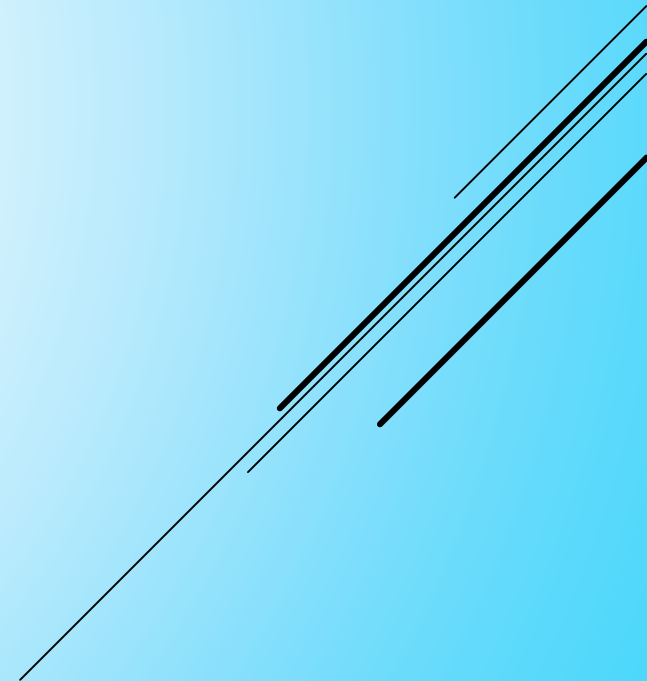
- ▶ New Deal (USA – 30ties of the 20th century)
- ▶ Stop and go (GB 50ties-60ties of the 20th century)
- ▶ Indicative planning (France - after WWII)
- ▶ USSR (2nd part of the 80ties of the 20th century)
- ▶ Macroplanning, government industrial politics (Japan – Japanese Economic Planning Agency)
- ▶ Industry nationalization after 1948 (Czechoslovakia)

**MOSTLY INTERVENTIONAL (STATE-PATERNALISTIC) CONCEPTS - APPLICATIONS**



- ▶ Socially-market economy (Germany 50ties of the 20th century)
- ▶ Reagenomics (80ties of the 20th century)
- ▶ Thatcherism (80ties of the 20th century)
- ▶ Rogereconomics (New Zeland – 80ties of the 20 th century)
- ▶ Beginning of the transformation period (Czech Republic and other post-communist countries - 90ties of the 20th century)

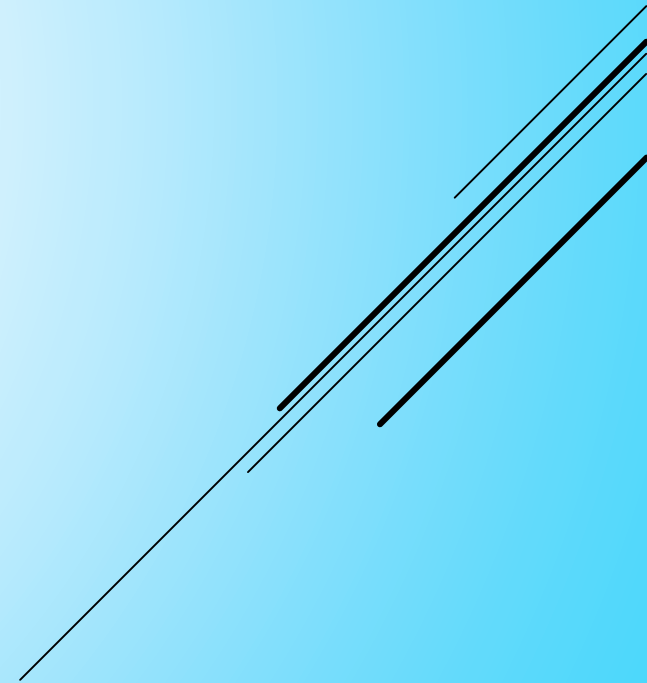
## **MOSTLY MARKET-CONFORMAL CONCEPTS - APPLICATIONS**



▶ [https://www.youtube.com/watch?v=b5zp\\_EJ4LY4](https://www.youtube.com/watch?v=b5zp_EJ4LY4)

▶ [https://www.youtube.com/watch?v=Xt\\_L8WFKvLc](https://www.youtube.com/watch?v=Xt_L8WFKvLc)

Neoclassical approach to the differences  
in regional economic potential





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## Národohospodářská fakulta VŠE v Praze



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