

The Classical School

Adam Smith is the founder of the classical school. He has been described as the "Father of Political Economy." His work "Wealth of Nations" (1776) is generally regarded as the starting point of classical school. According to Keynes, 'The classical economist was a name invented by Marx to cover Ricardo and James Mill and their predecessors. But Keynes included in the classical school, the followers of Ricardo, that is to say, who adopted and perfected the theory of the Ricardian economics.' These economists include, for example, J. S. Mill, Marshall and Edgeworth. Thus Adam Smith, Jeremy Bentham, Thomas Robert Malthus, David Ricardo, J. B. Say and J. S. Mill are the leading economists of the classical school. Of them, Smith, Ricardo and J. S. Mill formed the classical trinity. The classical system rested on four main pillars - The Malthusian Population doctrine, the Wages-Fund Theory, the Ricardian Theory of Rent and the Labour Theory of Value.

The Essential Features of Classical School

The entire philosophy of the classical school was based on economic liberalism. The classical writers believed in personal liberty, private property and individual initiative and private enterprise. Classical ideas were liberal in contrast to mercantilist restrictions of trade and industry. We shall summarize now some of the basic features of the classical school.

- 1.** The classical economists believed in laissez-faire. It implied minimum role for government in economic matters. That government is best which governs least.
- 2.** They believed in a market economy based on free and perfect competition. Production, exchange and distribution would be guided by market forces.
- 3.** They assumed conditions of full employment. It is this assumption that came in for a lot of criticism in the hands of J. M. Keynes. They thought that the economy was self-adjusting and would tend towards full employment without government intervention.
- 4.** They believed that the individual by seeking his own interests would serve the best interests of society. In other words, they believed in the

existence of a harmony of interests. Ricardo, however, did not believe in the so-called harmony of interests).

5. The classical economists emphasized the importance of all economic activities, especially industry. The mercantilists believed that wealth was derived from commerce. The physiocrats had seen in agriculture the source of all wealth. The classical economists added industry to commerce and agriculture and regarded all of them as productive.

6. The classical school provided a method of analyzing the economy and the economic laws that operate within it. They treated political economy as an abstract science in which fundamental principles of universal application might be laid down" In other words, they believed that economic laws were of universal application.

7. The classical economists were the first set of economists who paid a good deal of attention to the problems of economic growth and development.

8. The classical economists looked at the economy as a whole. This is what we call the macro-economic approach in modern times.

9. Lastly, the classical economists believed in J.B. Say's Law of Markets which said that supply creates its own demand. On that basis they felt that general over-production and hence unemployment impossible. Malthus was an exception. He believed in the possibility of over-production under certain circumstances.
