**Classical School**

**They have some common features:**

1. All classical economists were interested in **growth** and **development**, which according to them results from a situation called **stationary state** or **zero-growth**: this reflects a **pessimistic** attitude towards the possibility for capitalism to reach a long-run economic growth.
2. They all focused on **costs of production** as main **determinant** of **price**: prices are the result of the costs of production, therefore the value of commodities should correspond to the costs of production sustained by entrepreneurs.
3. Moreover, they were interested in studying the **distribution** **of** **income** **among social classes**. The placed importance on it because it was related to the **fairness** of capitalist system.
4. Market as self-stabilizing mechanism of distribution
5. Critique on Government intervention

**Aim:**

* Classical economists attempted to provided a consistent explanation of the changing relationships between income distribution and prices in the course of economic development. This reflects the emerging social classes created by capitalist development (18th century)
* They strived to obtain what they considered to be their rights
* Most classical economists thought markets had a self-stabilizing mechanism that permitted them to work efficiently without much government intervention.

**Neoclassical Thought**

Neoclassical school has classical school as scope of analysis and its economic system: production, distribution, accumulation and income uses. Neoclassicals focus on optimal utilization of scarce sources for human survival.

The method of analysis of classical school was a particular form of deductive method called **historical-deductive method**, observing changes in reality and forming hypotheses starting from this. These hypotheses change accordingly with the prevailing truth, therefore they may change over time. On the contrary, neoclassicals follow the **hypothetical-deductive method**, starting from observation of reality as well but considering it as general truth such as natural law. This general truth is unchanging, timeless and valid for every circumstance: this implies that we are able to use mathematical formulation to form our hypotheses. The difference lies in the fact that assumptions are used to build mathematical models.

**Economic laws**, namely theories built upon the method of analysis, were considered as continuously changing by classical school (e.g. evolution in Marx) and studied according to the period of investigation. For classical economists they were a result of an historical process. On the contrary, neoclassicals considered them as universal truth described by mathematical formulations.

**Economic agents** for classical school were collective (social classes), the aggregate forces of economic systems, whereas neoclassical school placed **individual agents** (firm 🡪 producer and household 🡪 consumer) at the centre of economic analysis.

**Exchange value** for classical school was determined by the cost of production (quantity of labour), whereas for neoclassicals it was determined by **tastes** (consumers’ preferences)and **technology** (firms’ decision).

**Government intervention** was considered to be kept at minimum levels (soft *laissez faire*) by classical school and extremely rejected by neoclassicals, who emphasized the invisible hand as a self-regulating mechanism of allocating resources (hard *laissez faire*).

**Historical School**

They developed as a reaction against the classical and neoclassical schools: the first developed in Germany against classical school and the second, influenced by the former, was born in the USA and was aimed at criticizing the neoclassical approach. They have some common features

* Their **rejection** of the idea of **universal law** (general truth applicable in all places and times) in favour of complexity
* Their idea of a **constantly changing economic system** (difficult to identify well defined patterns 🡪 historical generalization of classical school is a heroic exercise because there are different generalizations in different times of observation)
* Their use of **inductive method** to produce theoretical results. Neoclassical school uses the hypothetical deductive method (unique time t) and classical school uses the historical deductive one (different times *t* and *t + 1*), yet both lead to the same conclusions in different times and places. For these two schools, the starting points are particular facts observed in time t for a specific country (country A). From these particular facts we can derive some regularities (conclusions) in time t for country A. In country B, other particular facts are observed in time t and other regularities are derived and linked to that specific country in a specific time. This implies that different countries have different regularities. In time *t + 1*, a particular fact is observed in country A and regularities are derived for country A in time *t + 1*. The facts observed in country A in time *t* and *t + 1* may differ and, as a result, the regularities derived from these facts may differ as well. The inductive approach is used to explain something that evolves over time and space, so **generalizations** are **impossible** because economic systems are composed by agents (firms and consumers) whose behaviour may change continuously over time and space. This is a **relativistic approach** which implies that the economic aspects observed in a country in a particular time may differ with respect to another period and to another country.

**GERMAN HISTORICAL SCHOOL**

German historical school is characterized by some points:

* **Relativistic approach**
* Emphasis on the **role of government**
* **Inductive approach**
* Suggestion of the usage of **social reforms**, needed to help the workers to increase their living condition in an unequal society (reduce inequality).