

HISTORY OF NEO-CLASSICAL, CAPITALISM, SOCIALISM, KEYNESIAN ECONOMIC THOUGHT

MUHAMMAD SATRIO JULIYANTO

Faculty of Economics and Islamic Business, State Islamic University K.H. Abdurrahman Wahid
Pekalongan Indonesia, ORCID : 0009-0007-5627-2127

RAFI ALKAF ASY SYAFI

Faculty of Economics and Islamic Business, State Islamic University K.H. Abdurrahman
Wahid Pekalongan Indonesia, ORCID : 0009-0009-9485-0041

MUH FATKHURROZI

Faculty of Economics and Islamic Business, State Islamic University K.H. Abdurrahman
Wahid Pekalongan Indonesia, ORCID : 0009-0008-2716-4271

MUHAMMAD TAUFIQ ABADI

Faculty of Economics and Islamic Business, State Islamic University K.H. Abdurrahman
Wahid Pekalongan Indonesia, ORCID : 0000-0002-6168-0439

ABSTRACT

In the history of economic thought, there have been several major approaches that have influenced the development of the world economy. Neo-classical emerged as a continuation of classical theory, which emphasized the role of free markets and competition in regulating the economy.that emphasized the role of free markets and competition in regulating the economy. Capitalism, which is based on neo-classical ideas, makes private ownership and free markets the main pillars, enabling significant economic growth. as the main pillars, allowing for significant economic growth, but also creating inequality. creates inequality. Socialism, on the other hand, emphasizes collective ownership of resources and more equitable distribution. It aims to address the inequalities that arise under capitalism. However, socialist practices vary and often involve a mix of market and planning elements. of markets and planning. Keynesianism emerged as a reaction to the Great Depression and focuses on the role of the role of government in regulating the economy through fiscal and monetary policy to achieve economic stability. This theory provides the basis for government intervention in response to recession and address economic instability. In conclusion, neo-classical economic thought, capitalism, socialism, and Keynesianism have all had a significant impact on the development of the world economic system. economic system. An understanding of this diversity of views helps us to detail different approaches in organizing the economy and addressing the problems that arise. It is important to continue to study and understand the role of each of these approaches in the context of global economic development. context of global economic development.

Keyword; Economy, Neo-Classical, Capitalism, Sosialism, Keynesian

1. INTRODUCTION

Neo-classical economic thinking emerged from many weaknesses in thinking radicalism and conservatism. Radicalism feeds the fear of property confiscation personal, while conservatism is considered contrary to democracy and modernization. Until the first half of the 19th century, classical economics was still able to survive because it had not Increasing poverty and no economic downturn. Neoclassical economics began to develop and replace classical economics after political economists classics used the work of Karl Marx to fight capitalism and initiate socialization to the thoughts of Adam Smith and David Ricardo. Changes in the direction of economic thinking as well emerged with the beginning of a diverse working class\ Apart from that, there are social problems This is a consequence of industrialization and also gives rise to demands for government intervention improve education, security, public health, and job security. Laissez-faire policies began to fall out of use. In 1871, neoclassical economic theory developed by three economists, namely Carl Menger (1840-1941) from Austria, W. Stanley Jevons (1835-1882) from England and Leon Walras (1834-1910) from Switzerland. The third has developed classical economics which changed the focus of political economy no longer focuses on distribution and economic growth. A new concentration was held on individual consumer behavior and on participating companies in competition in the market. capitalist economic system, is an economic system that was born and developing in Europe. This economic system is individualistic in the sense of giving the broadest freedom of individual ownership. Capitalist economic system too trying to separate economic life from religious life. So there isn't any the role of religion in regulating human economic life. On its way the system The capitalist economy creates a gap between the rich and the poor. Rich people with lots of capital become richer, while poor people become richer helpless. The socialist economic system emerged in the late 18th and early 19th centuries as a reaction to the economic and social changes brought about by the industrial revolution. Revolution This industry did provide blessings for factory owners at that time, but in On the other hand, workers are actually getting poorer. In the 1840s, the term communism began to appear to refer to the militant left wing of socialism. This term usually referred to the writings of Etienne Cabet with his theories about ownership general. This term was later used by Karl Marx and Friedrich Engel describes a movement that defends the class struggle and carries out the Revolution to create a society of cooperation. Karl Marx is Son of Hirschel and Henrietta Marx. He was born in Trier, Germany, in 1818. Marx dreamed of a classless society. The materialist dialectical theory became a method standards that must be carried out to achieve these goals. Keynesianism, or Keynesian economics or Keynesian Theory, is a theory economics based on the ideas of the 20th century British economist, John Maynard Keynes. Theory it promotes a mixed economy, in which both the state and the private sector plays an important role. The rise of Keynesian economics marked its end laissez-faire economics, an economic theory based on the belief that markets and the private sector can run itself without state interference. will make consumers feel satisfied and will come back to buy the refill perfume (Allysa et al., 2018).

2. RESEARCH METHOD

using literature research methods with a brief summary of the approach used in conducting literature research. includes the collection and analysis of written work relevant to our specified research topic. we search and review existing literature, such as scientific journals, books, articles, and other sources related to the topic we are researching. After that, we analyze and organize the

information found to identify patterns, trends, or findings that are relevant to the research objectives. General methods of literature research provide an overview of the approaches used in literature research and can help in understanding the focus and results of our research.

3. RESULTS AND DISCUSSION

3.1. Research results

The results of the research conducted by the author are Neo-classical, Capitalist, Socialist, and Keynesian Economics is an economic system that has occurred in each period. the economic system has its own advantages and disadvantages.

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3.2. Discussion

History of Neo-Classical Economic Thought

Neoclassical economics is the term used for various approaches to economics focusing on the determination of prices, output, and income distribution in markets through supply and demand, often mediated through the hypothetical maximization of utility with limited income of individuals and of profits with limited costs of firms using available information and factors of production, in accordance with rational choice theory. Neoclassical economics rests on three assumptions, although certain branches of neoclassical theory may have different approaches:

1. -People have rational preferences between identifiable and value-related outcomes
2. -Individuals maximize utility and firms maximize profits.
3. -People act independently on the basis of complete and relevant information.

Neoclassical organization theory was developed on the basis of classical theory. Neoclassical organization theory modifies, adds to, and in many ways extends the classical theory. Neoclassical organizational theory is defined as an organization as a group with a common goal. If the classical theory focuses a lot on structure, order, formal organization, economic factors and rationality of goals, neoclassical theory emphasizes the importance of social aspects in work or informal organizations and psychological aspects (emotions). The development of neoclassical theory began with the inspiration of the experiments conducted at Hawthorne, as well as the writings of Hugo Munsterberg. The neoclassical approach is also found in books on human relations such as Gardener and Moore, Human Relations in Industry and so on. As a widely recognized originator of industrial psychology, Hugo Munsterberg wrote his most prominent book, Psychology and Industrial Efficiency, in 1913. This book was an important bridge between scientific management and the further development of neoclassical theory that developed around the 1930s. Munsterberg basically emphasized the differences in individual characteristics within organizations. The

Hawthorne experiment began in 1924 at Western Electric Company's Hawthorne plant in Cicero, Illinois, near Chicago, and was sponsored by the National Research Council. Hawthorne's study showed how the activities of cohesive work groups greatly affect organizational operations. Hawthorne's discoveries, however, added essential new dimensions to organization theory. Finally, Hawthorne's experiments show how the activities of cohesive work groups greatly affect the organization.

Capitalism System of Economic Thought

Historically, the development of capitalism was part of the individualism movement. This movement also had an impact in other fields. In the field of religion, this movement led to reformation. In terms of reasoning, it gave birth to natural science. In public relations, it gave rise to the social sciences. In the economic field, it gave birth to the capitalism system. Therefore, the Capitalist civilization is legitimate. It implies that capitalism is a comprehensive social system, more than just a particular type of economy. This system developed in England in the 18th century and then spread widely to Northwest Europe and North America (Ebenstein & Fogelman, 1994: 148). The history of capitalism cannot be separated from Europe, where capitalism was born and developed. The year 1648 (the year of the Treaty of Westphalia) is considered the birth of the modern state system. The treaty ended the war. Thirty years (between Catholics and Protestants in Europe) and established an independent state system based on the concept of sovereignty and rejected submission to the political authority of the Pope and the Roman Catholic Church (Papp, 1988: 17). This was the beginning of secularism. Since then the rules of the game of life have been released from the church (which is the representative of God), with the assumption that the state itself knows best the needs and interests of its citizens so that the state is the one who deserves to make rules for its life, while God (religion) is recognized but limited to the Church (human relationship with God). The basic principle of secularism is to place humans (state / kingdom) as the maker of rules or laws. The next problem is who or what is authorized to make rules that ensure the creation of a peaceful, tranquil and stable life. In fact, Europe until the 19th century was an empire ruled by emperors, kings and aristocrats. Until then, the political role of the people was minimal or even non-existent. The people passively obeyed the king and the laws made by the king, without involving themselves in the political process (decision-making). And it turned out that the king was always unable to fulfill the interests and needs of his citizens fairly and thoroughly. Furthermore, there were three important developments that influenced the changing situation in Europe, namely: Industrial Revolution (1760 - 1860), French Revolution (1775 - 1799) and Literacy (19th century). These three events led to the emergence of popular involvement (beyond the king and the nobility) in politics (the regulation of people's affairs) (Robert & Lovecy, 1984: 7). The industrial revolution gave rise to a middle class that had economic power, so that with this power they demanded a balanced degree of political power.

The French Revolution led to demands for nationalism (the idea that the people can rule themselves, not be ruled by others), liberalism (the idea that political authority must first be authorized by consensus and not hereditarily, and is limited by law and constitution) and equality (the idea that political participation is not only at the level of the aristocratic elite, but is open to all citizens). Social progress, in the form of a number of improvements in economic, intellectual, socio-

cultural and political conditions that occurred in Western Europe between the 18th and 19th centuries, can be seen as a cause of the development of democracy, where democracy limits arbitrariness and encourages humans to be more perfect and fair in organizing their lives (Palma, 1990: 17). From this we can say that in the 19th century there was a political transition in Western Europe from traditional dynastic autocracy to modern liberal democracy.

History of Socialism Economic Thought

The socialist economic system is an economic system that is fully regulated by the state. The socialist economic system is also known as a centralized economic system, because everything must be regulated by the state and also commanded from the center. The socialist economic system is an economic system that wants the prosperity of its people and is carried out evenly so that no more economic oppression occurs (Effendi, 2019). The socialist economic system does not mean that it does not provide individual freedom in economic activities, individuals are still given freedom in carrying out economic activities but are very limited, as well as with very large government interference. The characteristics of the socialist economic system are that it prioritizes togetherness or collectivity, the government has a very large role, human nature in this system is determined by production patterns, individual property rights are not recognized (Tho'in, 2015). Socialism as an economic system in one command, places the position of the state as the center of economic activity. The state is very powerful in joint ownership of all factors of production, production is carried out in accordance with needs, as well as strict economic planning to produce and distribute goods and services needed by the community (Santoso, 2011). The socialist economic system developed by Karl Max requires the maximization of the role of the state. The state must control all sectors of the economy to ensure justice to the people from production, consumption to redistributing it to the workers, so that they also enjoy the results of the business. The market in the socialist paradigm must be maintained so that it does not fall into the hands of greedy capital owners who monopolize and exploit labor power and then use it to get the maximum profit (Kamiruddin, 2018). In a socialist country, where the government is generally authoritarian, the poor cannot act as a decisive subject, but rather as an object for the implementation of economic activities (Hidayat, 2014).

Socialism is an economic system that gives considerable freedom to everyone to carry out economic activities but with government intervention. The government enters the economy to regulate the country's economic life and the types of economies that control the lives of many people are controlled by the state such as water, electricity, telecommunications, and so on. In a socialism or socialist economic system, the market mechanism in terms of supply and demand for prices and quantities still applies. The government regulates various things in the economy to ensure the welfare of the entire community. Socialist Economics is part of Political Economy. Political Economy is included in the sciences of society. The problem that is made a problem in a science is very important for scientific work, investigation, teaching and learning. The correct determination of the problem of a science has a decisive meaning for its implementation based on that science. Socialism emerged in the late 18th and early 19th centuries as a reaction to the economic and social changes brought about by the industrial revolution. The industrial revolution was indeed a blessing for factory owners at the time, but on the other hand the workers were getting

poorer. As the idea of a capitalist industrial system spread, so did the reaction in the form of socialist ideas. Although many earlier thinkers also expressed ideas similar to socialism, the first thinker who could possibly be dubbed a socialist was François Noël Babeuf whose thoughts emerged during the French revolution. He strongly championed the doctrine of class struggle between capital and labor which was later championed more vigorously by Marxism. Socialist thinkers after Babeuf turned out to be more moderate and they are usually called utopian socialists, such as de Saint-Simon, Charles Fourier, and Robert Owen. They were more moderate in the sense that they did not overemphasize class conflict and violent struggle but emphasized cooperation over competition. Saint-Simon argued that the State should regulate production and distribution, while Fourier and Owen believed that small collective communities should play a major role. Because of this, communistic settlements were established based on this latter concept in several places in Europe and the United States, such as New Harmony (Indiana) and Brook Farm (Massachusetts). After these utopians, there were thinkers whose ideas were more political, such as Louis Blanc. Blanc himself later became a member of the French provisional government in 1848. provisional government of France in 1848. On the other hand, there were also anarchists

History of Keynesian Economic Thought

Keynesian economics is a macroeconomic theory of total spending in the economy and its effects on output, employment, and inflation. It was developed by British economist John Maynard Keynes in the 1930s in an attempt to understand the Great Depression. The central belief of Keynesian economics is that government intervention can stabilize the economy. Keynes' theory was the first theory to sharply separate the study of economic behavior and individual incentives from the study of broad aggregate variables and constructs. Based on his theory, Keynes advocated increased government spending and decreased taxes to stimulate demand and pull the global economy out of the Depression. Furthermore, Keynesian economics is used to refer to the concept that optimal economic performance can be achieved and economic downturns can be prevented by influencing aggregate demand through economic intervention by the government. Keynesians believed that such intervention could achieve full employment and price stability.

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The Thought of J.M. Keynes

John Maynard Keynes was a British economist who was famous for his modern economic model. He was an adherent of mercantilist economic theory, where most of his theories focused on the efforts of the country's government to maintain economic stability. He was an employee at the British Treasury who came up with several ideas about the modern economic system which until now his work is used as an international economic guide. The idea originated at the end of World War I, which began with Keynes' disagreement with the punishment imposed by the league of nations against Germany for all war losses which led to the repayment of all losses and debts of the German state to the victorious countries of World War I including Britain.

Keynes thought that the sentence would be difficult for Germany to fulfill and it would make the economies of other countries collapse and Germany itself would be miserable to fulfill the sentence.

itself would also be miserable to fulfill the sentence. This was later proven by the collapse of the European economy and the Second World War. Keynes thought that Germany's continued production in an effort to pay war debts was hurting its own industry. The state also needed to make investment efforts as a preventive effort so that its economy would not collapse. As an economist who based his theory on mercantilist theory, Keynes emphasized all forms of efforts to stabilize the country's economy on government policies. Keynes mentioned that the government, in order to avoid and deal with crises that can strike at any time, needs to make a form of investment in the form of public facilities. However, this is not always successful, because the increase in the value of investment that is not followed by an increase in consumption capacity as fast as the production process will also cause an economic crisis. So this needs to be balanced with the ongoing economic strength in a certain period of time. The relationship between investment and consumption is described by Keynes in a cyclical economic model where both are rooted in income. On the other hand, Keynes also tried to explain the flow of government investment which then moves towards savings. Saving can be referred to as investment when it is associated with interest. So if savings are sufficient to make an investment, then interest will tend to fall and can result in a new form of profitable investment. However, if savings cannot meet investment requirements, then interest will rise and tend to attract people to save their money.

4. CONCLUSIONS

In the history of economic thought, there are several major approaches that have influenced the development of the world economy. Neo-classical emerged as a continuation of classical theory that emphasized the role of free markets and competition in regulating the economy. Capitalism, which is based on neo-classical ideas, makes private ownership and free markets the main pillars, allowing for significant economic growth, but also creating inequality. Socialism, on the other hand, emphasizes collective ownership of resources and more equitable distribution. It aims to address the inequalities that arise in capitalism. However, socialist practices vary and often involve a mix of market and planning elements. Keynesianism emerged as a reaction to the Great Depression and focuses on the role of government in regulating the economy through fiscal and monetary policies to achieve economic stability. This theory provides the basis for government intervention in response to recessions and addressing economic instability. In conclusion, neo-classical economic thought, capitalism, socialism, and Keynesianism have all had a significant impact on the development of the world economic system. Understanding this diversity of views helps us to detail the different approaches in organizing the economy and addressing the problems that arise. It is important to continue to study and understand the role of each of these approaches in the context of global economic development.

5. ACKNOWLEDGMENTS

Based on the conclusions above, the author believes that there are many other factors that cause this can be used to understand the neo-classical economic systems of capitalism, socialism and Keynesian. Therefore, it is hoped that research will be carried out by other parties. Future researchers can continue this research regarding material by using other contexts or analyzing other factors.

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