



## How Doctrinal Are The Doctrines Of Economic Thought? A Critical Evaluation

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### ABSTRACT

This paper is a concerted attempt to elucidate the interplay between the use of history, doctrine and theory among economists and allied managers of economic resources over ages and to evaluate the doctrinal claims in economic thought theorizing as particularly reflected in the economies of the Less Developed Countries. Thus taking economic thought as dogma, institutional and society variability in terms of desires make sweeping generalization about doctrine and persistent followership controversial and intolerable.

**Keywords:** doctrinal, economic theory, economic doctrine, controversies

### INTRODUCTION

Economic researchers have severally used economic theory and economic doctrine interchangeably yet they not necessarily mean the same. Economic theories refer to universally tested behaviour with respect to wealth acquisition and utilisation while economic doctrine is a principle or body of principles presented for acceptance or belief as by religious, political, scientific group; dogma. Wikipedia defined doctrine as a codification of beliefs or a body of teachings or instructions, taught principles or positions, as the essence of teaching in a given branch of knowledge or in a belief system. Arising from the foregoing, one is apt to take a position that economic thought provides the basis for economic theory formulation by man since the beginning of age. But the extent to which economic doctrines are truly doctrinal is another; this is the crux of this paper.

Thus in the pursuit of wealth and splendour, man as the homo-sapiens has always been in the front burner in social welfare theory ((Keynes,1936;Darby,1976;Dernburg and McDougall,1980;Levacic and Rebmann,1983;Eriemo,2009) Economic theory as universally perceived has two broad perspectives, the microeconomics and macroeconomics collectively guiding decision-making in management and economics for optimal target mix. Microeconomics with emphasis on individual minute details is primarily concerned with the individual decision-making processes of the government, households and corporate bodies distinct from its macroeconomic counterpart that studies the economy as a whole, identifying the interrelationships existing between broad economic aggregates. In the medieval time, economic theories were taken as economic doctrines how this was sustained through ages lives much to be desired.

Eclectically, economic theories are not strange to scholars in social science research yet several attempts have been made to elucidate, analyse or criticize economic theory in exegesis but were inexhaustive as were also explained in Keynes (1936) and Fustfeld (1977).Keynes (1936) for instance asserted that “the ideas of economic and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in

authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back". As a distinct way of describing the pace in the development of economic theory, Fufeld (1977) described Economist of his time as 'high priests' of a world of money, wealth and aspirations for material goods.

Economics as we know it today hardly existed, what did exist was "political economy" indicating that economics was part of national policy more than anything else and that it dealt with such issues as taxes, public debts and foreign trade only. Its main focus today is the quest for the attainment and maintenance of the equilibrium states. Complex but diverse views on these equilibriums have led to the advent of various schools of economic thought otherwise called economic doctrines, using the macroeconomic framework of analysis with microeconomic analytical backing. In all the major breakthrough in the analysis and ideas of economic thought from mercantilism, physiocracy and early economic liberals came from Monroe (1945). Thus this paper is therefore an attempt to trace and synthesize the development stages in economic thinking over the years since the advent of mercantilism up to the monetarism and relate such to the conditions in the Less Developed Countries (LDCs).

### **FUNDAMENTAL CONSIDERATIONS**

Although, mercantilism marked the beginning of this study, it will be worthwhile to mention that economic thought however started many years even before the advent of mercantilism as observed (Monroe, 1945) in this study of economic teachings of Plato (427-347BC). He noted that the variety of men's needs and the variation in men's abilities and came to the logical conclusion that if everyone did the thing most natural to him, greater production would result with a smaller expenditure of effort. He added that specialisation pre-supposed merchants to carry out exchange and a system of currency to facilitate the process (Monroe, 1945). Other great economists were Aristotle (384-322 B.C); Thomas Aquinas, an Italian Cleric who lived approximately between 1225 and 1274 A.D; and Jeremy Bentham (1748-1832).

Then Physiocracy, as reported by Fufeld (1977) was pioneered by Francois Quesnay (1694-1774), an off-shoot of the French school that reacted sharply against the Shopkeeper's appraisal of wealth and contended that economic thought should be seen as an attempt to understand human-satisfying resources as embedded in nature. In other words, the physiocrats believed that agriculture was the mainstay and the only source of wealth, or the only productive occupation, while manufacturing and traffic were regarded as sterile.

The questioning of the validity of physiocracy triggered-off the classical school of thought pioneered by Adam Smith. He believed that goods had both value in use and value in exchange and was convinced that the only objective and measurable value and hence the only reasonable basis for a systematic analysis of economic principles was exchange value (Rae, 1965). Other classical included Ricardo (1772-1823), J.S. Mill (1806-1873), A. Marshall (1842-1924), all of whom belonged to the English Classical School of Economic Theory. Writing almost at the same time were L. Walras (1834-1910) of the French Classical School and Irvin Fisher (1867-1967) of the American Classical School.

In spite of the good qualities in Smith's theory of wealth some weaknesses in his thought become obvious. For example it was argued that wealth was determined to a large extent by scarcity while increase in individual wealth acquisition would eventually decrease the society's wealth (Monroe, 1945).

The classical who were great capitalists believed that all prices and wages were flexible and given this price-wage flexibility, an economy should tend towards full employment.

The post-world war era up till the 1960s, particularly with the coming into international trade by South Korea, Taiwan and Brazil, revealed that economic development in trade brought about the inability of demand-management policies to produce the required capacity for performance. Upon this back-ground came the resurgence of neoclassical (later known as monetarism) thinking popularised by Friedman (1968) and Simons (1948).

A serious controversy arose between the neo-classical with emphasis on the use of the pricing system to secure the best possible allocation of resources and the Keynesian economics, at the peak of the economic depression in the 1930s, which emphasized the inability of a capitalist economy to maintain continually, full employment and a non-inflationary level of the gross domestic product (GDP). The Keynesians propounded non-market clearing mechanisms in opposition to that based on a pricing system favoured by the classical. Meanwhile Muth (1961) came out with the rational expectation concept which holds that expectations are rational if they are essentially the same as the predictions of the relevant economic theory.

The doctrine developed into monetarism that upheld the belief in the fundamental role of a monetary policy by the government to regulate the economy through effective control of the money supply.

Perhaps a greater detail evaluation of the various economic views with respect to Mercantilism, Physiocracy, Classicism, Keynesianism and Monetarism opens up the agenda continued debate and cross currents. While this study does break new grounds, it synthesizes and concretises many ideas from various microeconomic sources to give a macroeconomic overview of economic theory since the rise of mercantilism has witnessed massive doctrinal inspirations in economic thinking especially within the context of the developing economies. In the last fifty years, the boundaries of economics is not hard-edged and several specialized and overlapping bodies of studies have developed to include New Classical Economics, New Political Economy, New Keynesian Economics etc (Garba, 2003)

### **The Doctrine of Mercantilism**

Mercantilism came up out of the thinking that wealth (treasures) primarily in gold and silver constituted the basis of economic growth and sustenance. The growth in international trade and the establishment of the power of merchants after the medieval era led to the emergence of this body of thought, between the mid 16<sup>th</sup> and late 18<sup>th</sup> centuries. The mercantilists made up of T. Mun, A Serra, J. Bodin, J. Stewart and others recognized the growing power of national economy and were in favour of the intervention of the state in economic activity to maximize national wealth. Probably because the monetary system was elementary in relation to the growing needs for economic expansion, mercantilist writing was often overburdened with the identification of national wealth in the accumulation of precious metals. However their thought was a fundamental basis of economic thought and the analysis of international trade.

The mercantilists were impressed or obsessed by the fact that precious metals were in universal demand, and that these metals could buy any thing. Since foreign trade was thought to be the means of acquiring "billion", mercantilists supported policies designed to yield a "favourable" balance of trade in which there was an excess of export over import with the balance settled in gold. This made the mercantilists be regarded as nationalists favouring the import of gold from other nations rather than internationalists, or equitable distribution of wealth among nations. The mercantilists advocated an authoritarian control, since the unrestricted pursuit of individual well being (*laissez-faire*) might well yield results detrimental to the well being of the nation. Mercantilism in its original form is now dead, but there is a

power neo-mercantilist school which emphasizes the dependence on gold domestically as the necessary support for the money supply in a country. In the debate as to which emphasis, national or international transactions, neo-mercantilism favours the patronage of domestic goods, even if they are a bit more expensive, for this will expand domestic employment and national economic power.

The weaknesses observable in mercantilist thought are of two types. First it denies the principle of comparative advantage in which international trade could profit all participants. Modern international trade has shown that this is possible and makes for peaceful co-existence. The second weakness is that since it favours national self-reliance; it weakens international exchange which every nation needs for economic progress.

It was believed that a favourable balance of foreign trade was necessary to keep up the wealth of the nation, yet it was realised that an excess of specie might be detrimental, for it could lead to inflation. Unfortunately the emphasis on labour and the paternal responsibility of the state to regulate control and direct economic activity in the interest of the nation were not well received in England as there arose a popular revulsion against grants of monopoly to individuals and companies about the year 1601 (McCallum, 1980). Considering mercantilism whether of English, France or German comprising of Bodin, Cantillon, Colbert, and others it is reasonable to generate that all mercantilists subscribed to the following propositions:

1. Wealth is an absolutely essential means to power, whether for security or for aggression.
2. Power is essential to the acquisition or retention of wealth
3. Wealth and power are legitimate and ultimate ends of national policy.

To (McCallum, 1980), there is a long-run harmony between these ends, although in particular circumstance, it may be necessary for a time to make economic sacrifices in the interest of military security and therefore of long-run prosperity.

The contention of wealth and power as advocated by mercantilists is too narrow a sense. The tendency has therefore been to regard power and wealth as mutually complementary in economic analysis. Power could be employed in securing wealth and wealth in turn was a form of power. This contradicted the stereotyped explanation which has long been prevalent that power was the end of foreign policy and that wealth was valued solely as means to attaining it.

### **The Critique and fall of Mercantilism**

Mercantilism believes, in what is known as the zero-sum game so that one country's gain was necessarily another's loss. Thus the doctrine holds unequivocally, the prevention of over-importation of luxuries into the domestic economy so as to curtail the loss of gold to the rest of the world.

There is much of mercantilist's views to be observed in the less developed countries (LDCs) such countries now export only a limited quantity of primary products to the developed countries, the receipts from which grossly inadequate in financing intermediate capital imports highly needed in the transformation processes of the LDCs. It is also difficult for the currencies of the LDCs to be acceptable to the developed countries. Consequently, autarky or self-reliance by the process of trade protectionism rather than trade liberalism persists among the developing countries economy.

The rise to industrial height by Japan and China show much credence to the mercantilist contention that without a period of national autarky, small countries hardly can develop

because of the negative effects of multi-national collaboration of the more developed countries, (MDCs). On another note, the contention that economic interests are in antagonism under mercantilism shows some resemblance in the LDCs, as well; resources are limited and one can but use one to the detriment of others. This was further emphasized by Familoni (1989) in which he asserted that “since one country could only gain in a situation like this at the expense of others, the mercantilist in his pure form would advocate ‘beggar-my-neighbour’ policies”. Under such a situation, the goal of national greatness could be achieved just as well, if not better, by weakening the economic powers of neighbour-countries while strengthening one’s own position; hence some political undertones step in. Alas! Fundamental rigidities predominate in international trade today contrary to the surplus trade conception of the mercantilists. With the advent of the new protectionism even the traditional advocates of comparative advantage have come to embrace much more than the developing countries, essentials of restriction implied in mercantilism.

### **Physiocracy and its Fall**

The most important French anti-mercantilists called themselves the physiocrats up to the 18<sup>th</sup> century. They disagreed with the mercantilist assumption that wealth originated in industry and trade. Pioneered by Francis Quesnay who lived from 1694-1784, physiocracy came to being following the breakdown in mercantilists’ consensus on wealth and power and its believers hold the view that wealth originated with land and that agriculture alone could generate wealth. Quesnay argued that “only agriculture by virtue of the life giving aspect of nature could produce a surplus over and above the efforts invested in production (Fusfeld, 1977). The physiocrats developed the concept of circular flow of income model which bears the crude resemblance to the circular flow idea central in Keynesian economics. Although, physiocracy was short-lived as it ended in 1778, its believers made immense contribution to economic literature in offering an alternative political and social system with the belief in the Benevolent God. Thus the Physiocrats generalised that a sound economy was maintained only by agriculture which according to them, was the only productive occupation. They held the view that the policies advocated by the mercantilists were too restricted and conflicted with moral basis of economic life. Thus they succeeded in sub-dividing their economy into sectors with emphasis on interrelationships, forming the basis of the formidable Leontief’s input-output model.

Physiocracy further refuted mercantilist’s belief that a sound economy consists of the quantity of money a nation possesses. Instead they believed that wealth consisted in the quantity of raw materials available for the purpose of man or to put it differently, the increase in wealth of a community consist in the surplus of agricultural and mineral products over their cost of production. To Quesnay, according to McCallum(1980), commerce merely transfers wealth from person to person. What the traders gain is acquired at the cost of the nation and should be as small as possible hence commenting on the work of the physiocrats believe that they are to be commended because they constituted the earliest school of thought, which based their arguments on insights, concepts, and analysis of ideas. To them, “the entrance of this small group men into the arena of history is a most-touching and significant spectacle; so complete was the unanimity of doctrine among them that their very name and even their personal characteristics are for ever enshrouded by the anonymity of a collective name”.

Another physiocrat, Jacques Turgot (1727-1781), who rose to be Minister of Finance in France introduced a variety of anti-feudal and anti-mercantilist reforms with the support of the king. One of such reforms was the advocacy for a single tax structure with liberal considerations. Turgot advocates uphold due respect for the inextricable natural laws of the society by

implication of liberalism. McConnell (1943) therefore described the doctrine of physiocracy as “the Law of Natural Order” emphasizing optimism, individualism, self-interest and a blend of the social aspect of life. He further described it as a blend of a natural order or a system of natural, scientific, ethical and socio-scientific “natural laws, ordained by a wise and benevolent God, designer of all nature and human nature to ensure a harmonious, orderly functioning of both this non-human natural universe and all human societies.

The obvious thing about physiocracy is that its reign was short-lived but quite remarkable in the development of economic theory particularly in the 18<sup>th</sup> century United States of America, where a long line of statesmen from Jefferson to Lincoln were convinced that the nation’s future depended on encouraging the small farmer. A fundamental cause for the fall of physiocracy was the expulsion from France of its proponents such as Pierre du Ponts de Nemours to the United States. Similarly Turgot was forced out of office by the opposition from the nobility in France in spite of the support given to him by the King of France. Over-emphasis on farming provoked every other professional such as the manufacturers under physiocracy who tagged sterile. Physiocracy had been analysed by Fusfeld (1977) as made up of two prepositions that:

1. Regulation of trade and industry impeded economic development by hindering the flow of income and commodities on which the economy depended, because they were not productive and partly because
2. All taxes should be paid by land owners (not farmers) partly their luxurious way of living distorted the flow of income.

Thus the landlords revolted against the doctrine. With the emigration of its proponents from France and the unfortunate death of the founding father, Quesnay in 1781, the doctrine of physiocracy had at last journey to extinction, and in its place came the economic liberals, otherwise known later as the classical.

### **The Classical Economics**

Adam Smith Wealth of Nations of 1776 heralded the classical economics thinking. Though this classical school, just like its mercantilist predecessor, was more of a heterogeneous group of theorists with each group in particular circumstances holding distinct beliefs and aspirations about the economy, a holistic look at the works of the foremost classical economist such as Smith, Mills, Walras and Marshall reveals a network of similarity in basic principles (Familoni, 1989). They all believed in Smith’s system of liberalism and natural liberty. Their analytical system was founded on Smith’s equilibrium of supply and demand in competitive markets, and they generally favoured freedom of action for business enterprise and strong limitations on government. They were internationalists and stood for free trade and free movement of capital. As aptly stated by Appadorai (1975), Economics, so runs a classic definition, is a study of mankind in the ordinary business of life; it examines that part of individual and social action which is most closely connected with the attainment and with the use of the material requisites of well-being.

Four other economists besides Smith and others already mentioned that made major contributions to the classical system include Thomas R. Malthus, David Ricardo, Jeremy Bentham, and Jean Baptiste Say. Working primarily in the turbulent first quarter of the nineteenth century, when the world economy was percolating with the changes wrought by war, revolution, economic change, population growth, new technologies, and political upheaval, they sought to analyze the economy in terms of a few basic underlying principles. For example, the classical believe that although individuals were each motivated by self-love

and personal ambition, free competition ensured that the community as a whole benefited. As Smith (1776) noted, "it is not from the benevolence of the butcher that we expect our dinner, but from his regard to his and our interest". As a consequence, the classical believe that government interference should be kept to a minimum. This agrees with the Say's Law of Market forces of demand which according to him creates its own supply. The implication of Say's Law is that people produce, not for the sake of producing but only to exchange their products for other goods they want and this makes it impossible for production to outrun demand.

In a similar opinion, Malthus' classical view that population would tend to increase more proportionately than the growth rate in food production unless were held in check by "misery and vice". Malthus thus believed that while population of most countries grows in geometric progression, food production grows in an arithmetic progression. To increase food supply, population size would have increased correspondingly until the amount of food per person had fallen back to the subsistence level.

Ricardo, holding a pure classical view reveals that if the economy were left alone, it would achieve the maximum growth possible especially when business restrictions are removed and that government intervention in the economy will lead to a lower rather than a higher level of economic activity. This he said would reduce profit maximization.

### **The assessment the of Classical Economics**

In its pure form, classical economics upholds the tenets or laissez faire with the beliefs in perfect market conditions such as information and stability certainty. The result therefore is for policy to be introduced in order to achieve desired targets through indirect measures germane towards rectifying relevant targets through changes in market conditions while the market remains undisturbed. Ironically, the rigid assumptions of perfections in market conditions do not reflect what is practically found in the less developed countries (LDCs); most LDCs are characterised by predominant oligopolistic practices and multi-national collaborations emitting a high degree of imperfections into the market fabrics of nations. These conditions cannot cease to be because most LDCs till today remain dependent on the more developed countries (MDCs). The result is therefore a prolonged period of worsening terms of trade and balance of payments deficits among the LDCs while there remains increased protection and tariff barrier in MDCs.

Searching for solutions to the above problems has always been a paradox but can adequately be met through government intervention so as to attain the socially desirable growth rate and equity. Such interventionist polices should be so directed to correct the distortion – dominated economies of the Less developed countries. Even the monetary policy in the LDCs may be quite too rudimentary as the requirements of a well integrated, highly monetized economic system with adequate information flow that provides the ultimate are near total absence; rigidities still determine the policy system today.

Lastly, the relative effectiveness of monetary policy over fiscal policy as provided by the classical are by no means, a true reflection of what obtains in the less developed countries. Due to informational deficiencies and a predominantly demonetised economic systems ion the LDCs, fiscal policy overrides monetary policy.

### **Keynesianism in Practice**

Keynesian economics, named after John Maynard Keynes, was the economic thought that emerged in mid 1930s when the tenets of classicism could not explain unemployment in Britain (Levacic and Rebmann,1983) which doubled from 10% in 1924 to an astronomical level of 25% in 1933 while productivity declined by about 33.3%. It was at the peak of this unemployment crisis that Keynes (1936) published his book, "The General Theory of Employment, interest and money" which emphasized the quantitative relationship that exists between consumption and disposal income. Keynes argued that depending on the link between current and future rates or interest, money might be a better store of value than bonds. A rising interest rate in the face of albeit, falling bond prices precipitates more urge to hold money balance. This is the Keynes' speculative motive in the demand for money a major break through in economic thinking.

The Keynesian economics remained in vogue since 1940s up till the last 1960s albeit government interventions. It believes that the management of economic activity is simply compensatory fiscal policy, accomplished through increased and pervasive government expenditure, causing drastic changes in the levels of income and employment from the Keynesian multiplier effect. As Levacic and Rebmann (1983) had noted, the issue of whether government intervention is necessary centres on the question of how well markets adjust to bring about and cope with the continual stream of changes which occur in a dynamic and uncertain economy. In the Keynesian world, the private sector is inherently unstable, while the price mechanism fails to perform the adjustment function adequately. The adjustment burden falls on output and employment so giving rise to a 'prima facie' case for intervention.

It is generally held that the main gospel of Keynesian economics is that the automatic adjustment process of the market is too weak and unreliable to serve as a practical basis for full employment policy. To this end Monroe (1945) noted that even though the real balance effect must be taken into consideration in the theoretical analysis of the pure classical analysis of economic policy. It is too weak and in some cases too perverse to fulfil in significant role in policy consideration. What then do we expect in the Less Developed Countries' economics?

In most LDC's, the Keynesian interventionist approach to stability of economic aggregates prevail in virtually all circumstances. This is because the governments not only take longer share in employment the informational set-ups for laissez-faire policy of the classical are quite rudimentary. The importance of government intervention according to Keynes (1936) need not be overemphasised especially in the LDCs. However, since these developing countries are corroded by disguised unemployment somewhat different from the Keynesian conception, the critical level of employment can hardly be determinate. This can further be explained by the fact that the economies of the LDCs are not highly integrated and developed. It follows therefore that even though the Keynesian economics is prevailing in circumstances, their effects are likely to be dampened if not complemented by other supportive measures.

### **Monetarism and Aggregate Economic Activity**

The monetarist believe that fiscal policy is not an efficient means of aggregate demand management; this is evident by its crowding-out' effect on private investment. Although several studies showed credence to this monetarist contention, some of such studies have been grossly criticised on the basis of over simplicity of assumptions about the proxies used. The monetarists believe in government's policy regulation of money supply.

By and large, the works of Christ (1968) and Familoni (1989) revealed that the results of some of those studies, are not free from controversy and that in all, and probability could be a



demonstration of statistical regularity rather than behavioural regularity. The proper base for effectiveness in the analysis of monetary policy is in a highly monetized economy such as those Britain and the United States of America. In as much as the economy of the less developed country is not highly monetized coupled with the predominance of distortions and divergences, the alternative to monetary policy would actually stabilize substance for effective monetary policy would actually stabilize the economy of the LDC better. It is however argued that the monetization substance for effective monetary policy is not always present in the advanced countries because there exist monetary policy guarantee. The implementation of fixed rules for example, would mean that such rules also change when major economic indices upon which they are dependent change. Hence monetarism would eventually lead to the introduction of the policy adopted by Friedman (1975).

Monetarism in the LDCs fails to reach the desired target because even with the low level of economic monetization, the exploitative effects of the multi-nationals render such economies resources-constrained. Poor linkages thus evolve between the superior modern monetized sector and the inferior traditional sector. In the midst of these circumstances, monetary policies would not transform to the fullest, the structural and fundamental issues prevalent in the less developed country. It is also argued that the apparently permanent inflectional effects of deficit financing all point to possible failure of monetarist – oriented policies. Hence monetarism would need to be complemented by other auxiliary measures to ensure proper effectiveness. The lack of adequate informational supply and highly monetized economic environment probably make the old monetarist contention to give way to the new classical and the Neoliberalism in the mid 20<sup>th</sup> century.

### **CONCLUSION**

The paper examined the doctrinal essence and macroeconomics substance of the various economic thoughts, theories and the attendant controversies. Economic doctrines were observed as mere philosophers, apostles and advocates late that inspire intellectuals in the advancement of knowledge to mankind. They were deeply concerned with concrete issues of their time, not binding on posterity especially the emerging economic policies of the less developed countries (LDCs) such as Nigeria. However, in conclusion therefore, much of the economic trade policies such as self-reliance commonly in use in the LDCs today owe their origin to mercantilist thinking in Europe. This shows that, although mercantilism reigned in Western Europe between the 16<sup>th</sup> and 18<sup>th</sup> century, the practical manifestations of which have become a common feature of the economics of the LDCs. However, mercantilism fell not only because of the strict protectionist policy in the doctrine but also from the monopolistic privileges granted a few big financiers as clarified by (Fusfeld, 1977) pointing out further that the government became corrupt and inefficient as tax evasion became the order of the day.

One obvious observation in the study is that one doctrine or theory is antecedent to the other in series, more or less indicative of the cycles or eras in behavioural tendency among people and nations through history. No one idea can be termed totally unrealistic or too important so far. The doctrinal foundations of economics were guides in the way of life and not dogmas as doctrines are perceived. These doctrines are only means to academic growth and are meaningful as far as their operational environments were concerned. Doctrines opened intellectual minds which culminated into theoretical realities of the day, the basis of which economic science of the day rests.

Therefore, the question as to what constitute the ideal economic thought for policy options hinges therefore on the emerging economic conflicts based mainly on the Neoclassical –

Neokeynesian arguments. While the neoclassical model based on rational expectations holds that all economic agents, that is firms, workers and consumers, are adequately well informed on how the economy functions, the Neokeynesians argue that the full application of budgetary, monetary and foreign exchange rates policies will increase the total money expenditures on goods to attain equilibrium.

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