Stability or Growth? Philosophies of the Resolution

By Zachary Beddingfield

Resolved: Economic stability is more important than economic growth.

Hello! This article aims to provide a better understanding of the philosophies of economics, both those directly pertaining to the resolution and more generally. “Philosophies” of economics refer to theories proposed by different economists throughout history as to the best ways to perceive and manage economies in the real world. To be successful in this year’s Lincoln Douglas season, you’ll want to be familiar with the basics of how economies function as well as the different theories economists have used to try and understand them.

This article will cover some basic principles of economics as well as the most common and influential economic theories. Before reading this one, make sure to review Mark Csoros’s excellent “Resolution Overview” on the Monument website, which explains the key concepts we look at in economics as well as the terms in the resolution. This article will touch on some of these ideas like supply and demand and bring up a few new ones, but I’ll assume you’ve read Mark’s explanations of the basics so we can get into the philosophies as well.

## Essential Vocabulary

### Supply and Demand

Supply and demand is the basis of all economics, which means it’s among the most important concepts to understand and be able to communicate effectively to your judges. First, another look at the *Encyclopedia Britannica* article cited in the Resolution Overview:

**Supply and demand,** in economics, [is the] relationship between the quantity of a commodity that producers wish to sell at various prices and the quantity that consumers wish to buy. It is the main model of price determination used in economic theory. The price of a commodity is determined by the interaction of supply and demand in a market. The resulting price is referred to as the equilibrium price and represents an agreement between producers and consumers of the good. In [equilibrium](https://www.merriam-webster.com/dictionary/equilibrium), the quantity of a good supplied by producers equals the quantity demanded by consumers.[[1]](#footnote-1)

I like to explain supply and demand as the relationship between a seller’s willingness to sell at a given price and a buyer’s willingness to buy at a given price. Supply and demand pertains to the purchase of “goods and services,“ a common phrase in economics that means the purchase of an item or the payment for an action, like when a restaurant hires a worker at an hourly rate or your mom pays a tutor to help you with math. Different economic philosophies treat the specifics and ramifications of supply and demand differently. Still, the accepted principle of supply and demand is that sellers would like to sell for the highest possible price, and buyers would like to buy at the lowest possible price. The agreement they come to is known as “equilibrium.” At the macro scale, this equilibrium is the price of a product in stores, the price at which the seller expects to make the most profit by balancing a high sale price with plenty of sales.

### Monopolies

A monopoly is a special case in economics that introduces problems for supply and demand. Economists generally agree the government should seek to prevent monopolies, so it’s important we understand why within our debates. *Investopedia* defines the term:

A monopoly refers to when a company and its product offerings dominate a sector or industry. Monopolies can be considered an extreme result of free-market capitalism in that absent any restriction or restraints, a single company or group becomes large enough to own all or nearly all of a market (goods, supplies, commodities, infrastructure, and assets) for a particular type of product or service. The term monopoly is often used to describe an entity that has total or near-total control of a market.[[2]](#footnote-2)

A monopoly is a company that doesn’t face actual competition in the market, which can degrade the benefits of supply and demand. Generally, companies have to compete. Consider Lowes and Home Depot, two companies that sell the same products to the same consumers, a clear-cut example of competition. Supply and demand states that the price of their products is based on an agreement at some price that the consumer is willing to pay and they are willing to sell. Competition introduces an important factor. Because Home Depot and Lowes both want to sell you their product, they will try to undercut each other on their prices, willingly lowering their asking prices in a compromise to increase their sales by pulling directly from their competition’s buyers.

Now imagine if Home Depot was the only retailer in the United States that sold all the products that they do, like agricultural supplies and construction materials. In this perfect monopoly, Home Depot doesn’t need to take buyers from other companies. Because you literally *can’t* buy from someone else, they can raise prices in the knowledge that enough people will still begrudgingly buy their products, and you’ll be forced to spend more if you want to replace the dead light bulbs or broken lawnmower. Lacking competition allows sellers to raise their asking price in supply and demand theory, resulting in a higher price at equilibrium.

Monopolies are a breaking point for many economic philosophies and the building point for new ones, and all of the theories we’ll talk about today have made room for eliminating them.

### Inflation

Inflation will be a central element to this year’s resolution, and its relation to growth is complicated. Inflation is the process by which the value of currency changes, generally with inflation increasing as value decreasing over time. We measure this change in the value of currency over time with the Consumer Price Index (CPI). United States CPI is provided by the Bureau of Labor Statistics, derived by averaging the price of a large selection of goods and services called a “basket of goods” each year.[[3]](#footnote-3) Using this measurement, it would take $12.82 in 2020 to purchase the same amount of goods and services as just $1 in 1920, evidentiary of inflation in the economy.

Where economists sometimes disagree is the way growth affects inflation. Nobel laureate Milton Friedman wrote in his 1970 *The Counter-Revolution in Monetary Theory*: “Inflation is always and everywhere a monetary phenomenon in the sense that it is and can be produced only by a more rapid increase in the quantity of money than in output.”[[4]](#footnote-4) In other words, inflation is the result of the money supply, the money that exists in a country’s economy, increasing more quickly than real GDP, GDP that’s been adjusted to account for inflation. The existence of more money without enough new goods (real GDP) causes sellers to raise prices, recognizing that consumers have more money and can thus pay more for goods. Do note that Milton Friedman is a monetarist, founder of one of the three theories covered below, and monetarists place the greatest weight on the money supply. Still, this is the view that most economists are ready to embrace.

Now, applying inflation to Season 21’s resolution, does economic growth mean inflation? This is the point where I’ve observed disagreement. The discussion tends to rest on whether economic growth (typically the kind catalyzed by government, the most obvious actor for the resolution) implies a disproportionate increase in the money supply. If growth means too much money added to the money supply, which can be done by printing money (making loans easier, encouraging investors to give out more of their capital, etc.), then heightened inflation will occur. Because this is an important point for this year’s debate, here’s a list of credible summaries from reputable economists:

* David Henderson argues that growth alone must result in reduced inflation. Beginning at the equation “MV = Pq,” a monetarist equation accepted to be a true identity similarly to the Pythagorean theorem, he notes that, were money supply M and the other variable V held constant while q, growth rate, increases, inflation P must fall. This is true but is also cheating a bit – one way the Federal Reserve spurs growth is increasing the money supply. A lengthy quote is provided of 1995 Chairman Greenspan in a Senate Finance Committee testimony stating that increased output and GDP growth can be attained without inflation (good luck getting your judge to register it). See <https://www.cato.org/policy-report/novemberdecember-1999/does-growth-cause-inflation>.
* Both of these links are reasonably credible, encyclopedia-like sources claiming as a basic principle that economic growth causes inflation, especially at higher levels of growth: [https://www.economicshelp.org/blog/3511/economics/is-inflation-caused-by-economic-growth/#:~:text=Inflation%20caused%20by%20economic%20growth,see%20a%20higher%20inflation%20rate.&text=High%20growth%20leads%20to%20more%20employment](https://www.economicshelp.org/blog/3511/economics/is-inflation-caused-by-economic-growth/#:~:text=Inflation%20caused%20by%20economic%20growth,see%20a%20higher%20inflation%20rate.&text=High%20growth%20leads%20to%20more%20employment.) AND <https://www.investopedia.com/ask/answers/112814/why-does-inflation-increase-gdp-growth.asp>.
* This peer-reviewed study shows an extreme 99.1% correlation between money supply growth and inflation for two countries, evidence that an increase in money supply causes inflation but not necessarily that general economic growth will. <https://www.emerald.com/insight/content/doi/10.1108/JFEP-10-2018-0152/full/html?skipTracking=true>

Dr. Roy Cordato, with a Ph.D. in economics, strongly rejects the notion that growth causes inflation, calling it “nonsense” and a “relic of Keynesian economics.” His argument relies on the premise that policy can spur economic output and real GDP growth without boosting money supply excessively. See <https://www.johnlocke.org/update/too-much-growth-doesnt-cause-inflation/>

Frank Shostak argues that data suggesting economic growth causes inflation is misleadingly measured. Furthermore, if it were measured as a boost in goods in services, growth would not cause inflation, but rather money supply would. See <https://mises.org/library/does-economic-growth-cause-inflation>.

To summarize, these articles all accept on some level the ideas of implicitly or explicitly, that increasing money supply without proportionally increasing GDP is the cause of inflation. The debate on if economic growth with cause unhealthy inflation lies in the possibility of attaining economic growth, as defined in the round, without excessively boosting money supply. Furthermore, can this type of policy be said to value growth over stability, or is this the most stable course of action?

### The Importance of Inflation

Before we move on, a quick note on the importance of inflation. In our debates, the Affirmative will likely argue the harm of economic growth in causing inflation. In addition to contention on whether economic growth necessarily causes inflation, the Negative should not let Affirmative characterize inflation as definitively damaging. In itself, inflation is bad; prices go up, and no one wants that. However, the U.S. Federal Reserve recognizes inflation as an *indicator*, a measure of the health of the economy. Two percent increase in the personal consumption expenditures, PCE (note this is different than CPI, but they can be treated similarly, check the footnote for more info[[5]](#footnote-5)) each year is seen the ideal rate for inflation. This ideal rate is looked at as a sign that the economy is growing and increasing demand just enough to let sellers increase supply as well as cost. Lower rates hint that there isn’t enough demand in the economy.[[6]](#footnote-6) Negative inflation or deflation, the forcing of sellers to lower prices due to decreased demand, was a hallmark event in the lead to the Great Depression. This decrease in money’s value coupled with an increase in interest rates led to a metric called the real interest rate, the interest rate minus rate of inflation, spiking, which caused investment to halt and initiated the Depression.[[7]](#footnote-7)

### Fiscal and Monetary Policy

The three largest economic theories differ on what combination of fiscal and monetary policy government should use to manage the economy. Investopedia defines these terms:[[8]](#footnote-8)

Fiscal Policy

Generally speaking, the aim of most government fiscal policies is to target the total level of spending, the total composition of spending, or both in an economy. The two most widely used means of affecting fiscal policy are changes in government spending policies or in government tax policies.

Monetary Policy

Central banks typically have used monetary policy to either stimulate an economy or to check its growth. By incentivizing individuals and businesses to borrow and spend, the monetary policy aims to spur economic activity. Conversely, by restricting spending and incentivizing savings, monetary policy can act as a brake on inflation and other issues associated with an overheated economy.

Fiscal policy is the taxation by and budgeting of the central government. If an economy is slowing, the government can cut taxes and boost its own spending to increase spending across the board, allowing the economy to start back up. If an economy needs to slow down due to unsustainable growth, government can boost taxes and cut down their own spending to temporarily stifle activity. Monetary policy is the management of the money supply and interest rates by the central banks, such as making it easier to take out a loan (i.e. 2008 housing crisis) by decreasing interest rate. Monetary policy is bank policy meant to maintain stability and manage inflation, primarily by managing the money supply.

## The Economic Theories

### Classical Economics

Classical economics is called the “dominant school of thought for economics in the 18th and 19th centuries” by Julie Young of Investopedia. Its founder, Adam Smith, is known as the father of economics for his work developing this perspective on the economy. Classical economics, as well as the other theories we’ll cover, perceives the market as a system fueled through self-interest. Businesses operate because they can benefit through making money; consumers buy groceries or that new phone because they *want* it, because they assign more value to the phone than the money it costs them. Beginning this theory, Smith coined the term “the invisible hand,” an essential concept in capitalist economics. The invisible hand refers to the tendency of markets governed by self-interest to remain stable and act in the best interest of society, both for buyers and sellers.[[9]](#footnote-9) Accepting the invisible hand in full means advocating laisse-faire, which means “let do/let go.” Total belief in the invisible hand and thus a laisse-faire system causes economists to theorize that the best benefit to buyers and sellers occurs when there is no government intervention.

Advocates of this theory tend to acknowledge that some conditions, like monopolies and price setting, cause the natural forces of the invisible hand to break down, prompting government intervention, but they maintain government intervention should be extremely rare and only to stop these threats to the consumer. Child labor laws, workplace safety measures, and any government-mandated service that an employer must provide employees would not fit into a laisse-faire system, nor would any policy by the Federal Reserve or congress to help the economy grow in any way. Monetary and fiscal policy, the kind designed to boost the economy in general, are viewed as inherently faulty.

In summary, classical economists believe in the power of the invisible hand and the principle that consumer and business both thrive most in a government-free system, and that government should only intervene to protect the consumer from corporate “cheating” of the free hand like monopolies and price setting. Fiscal and monetary policy will only stifle the economy.

Further reading:

Young, Julie. “Classical Economics and the Evolutions of Capitalism.” *Investopedia*, 29 Apr. 2019, [www.investopedia.com/terms/c/classicaleconomics.asp](http://www.investopedia.com/terms/c/classicaleconomics.asp). Accessed 6/17/20.

Amadeo, Kimberly. “What’s Wrong With Laissez-Faire Economics?” *The Balance*, 14 May 2020, [www.thebalance.com/laissez-faire-definition-4159781#:~:text=Laissez%2Dfaire%20economics%20is%20a,does%20is%20protect%20individuals’%20rights](http://www.thebalance.com/laissez-faire-definition-4159781#:~:text=Laissez%2Dfaire%20economics%20is%20a,does%20is%20protect%20individuals'%20rights). Accessed 6/17/20.

“What Is Laissez-Faire?” *Robinhood*, 2019, <https://learn.robinhood.com/articles/1yI5RpXjYaNVWXUR7YNVSX/what-is-laissez-faire/>[file:///Users/chrisjeub/Dropbox/S21 Editorial/2 - Editor Folder (Chris Level)/learn.robinhood.com/articles/1yI5RpXjYaNVWXUR7YNVSX/what-is-laissez-faire](file:///Users/chrisjeub/Dropbox/S21%20Editorial/2%20-%20Editor%20Folder%20(Chris%20Level)/learn.robinhood.com/articles/1yI5RpXjYaNVWXUR7YNVSX/what-is-laissez-faire) Accessed 6/17/20.

### Keynesian Economics

Keynesian economics was founded by British economist J. M. Keynes and began in the midst of the Great Depression, the largest example of an invisible hand “writer’s block.” Many believed the invisible hand could solve the challenges faced in the Great Depression, but as time went on the system did not correct itself as predicted. In 1929, employment rested at 3.2%. By 1933 it was 25% (and they didn’t even need a pandemic!), and economic contraction, the reduction of GDP, was proving detrimental.[[10]](#footnote-10) Exports crashed, imports crashed, and investment dropped the most dramatically of any metric from 92.4 (units unclear) in 1929 to just 9.9 in 1932.

The lack of investment was due to a combination of millions of investors being wiped out by a crashed stock market and deflation without monetary policy to make investments funded by loans less risky. Deflation makes investments less appealing because if money is worth more tomorrow than it is today, the result and deflation, and interest rates remain constant, then the *purchasing power* of the money paid back is greater than it would have been in a system with zero inflation. This phenomenon is referred to as real interest rate, and counteracting it at a government level demands monetary policy.

Throughout the early years of the Great Depression, government spending remained relatively constant, a hallmark sign that there was no fiscal policy either. Without either form of policy, monetary or fiscal, the market was left to fend for itself. But it never corrected as classicalists predicted. Faced with a dying market, President Franklin D. Roosevelt turned to a new understanding of economics, Keynesian, which some economists were using to explain the phenomenon of the Great Depression. His policies, the New Deal, boosted government spending while encouraging private investment in the market and saw an upturn in the economy. However, the economy was still in depression, and investment in the Second World War is typically credited for being the final boost in fiscal investment to pull America completely out of the Depression.[[11]](#footnote-11)

Understanding the history that sparked Keynesian thought, we can view it as the belief that, while the economy is self-interested, those selfish forces do not always result in a stable and thriving economy. Some economists refer to this as an economy becoming sticky: where classicalists hope for a market equilibrium – agreement on the price for a good or service through supply and demand. Keynesian economists believe that sometimes imperfections become rooted in the market and rarely can break it. A seller may decide they cannot lower their price any further, and buyers are not willing to purchase at the given price, or perhaps deflation stops investments and thus initiates economic contraction. Instead of relying on the invisible hand, Keynesian economists believe fiscal policy will both become vital to both preventing and remedying economic spirals like in the Great Depression and, significantly, simply boosting an already healthy economy. They also believe monetary policy plays a role but are skeptical of its impact compared to fiscal measures.

Summary: Keynesian economists believe the government should play a role in the economy by employing fiscal policy and less frequently monetary policy to counteract economic contraction of a faltered economy and maintain the stability of a healthy one. Keynesian economists disagree with classicalists that the most thriving market is one with no government intervention, viewing fiscal policy as a tool outside of corporate “cheating” like monopolies.

Further reading:

Chappelow, Jim. “Dispelling Mysteries About the Invisible Hand.” *Investopedia*, 30 April 2020, <https://www.investopedia.com/terms/k/keynesianeconomics.asp>. Accessed 6/17/20.

### Monetarism

Monetarism is a middle-of-the-road philosophy by Nobel laureate Milton Friedman which gained traction in the 1970s that accepts some of the spirits of Keynesian economics while remaining more skeptical of government competence. Monetarism places focus on the money supply, which is the total money in circulation, and subsequently argues that monetary policy, bank policy that regulates the money supply, should be government’s tool to stabilize the economy.[[12]](#footnote-12) Monetarism places value on a stable economy and is skeptical of some Keynesian ideas, viewing government intervention as risking instability. The difference between these sects is that monetarists reject fiscal policy as a method to help the economy and believe monetary policy should be bound to strict rules of economic principle, removing Federal Reserve discretion and replacing it with a set formula for policy. From my reading, it appears that economists today view parts of monetarism as useful but the theory as a whole incomplete, providing effective policy for the government to take in stabilizing the economy through normal times but lacking the arsenal to respond to some problems that the economy often faces.

In summary, monetarism advocates monetary but not fiscal policy to assist the economy. Economists of this type believe the government should act not on discretion but pre-defined rules in managing the money supply to control inflation and stabilize the market.

Further reading:

“Monetarism.” *Policonomics*, <https://policonomics.com/monetarism/>. Accessed 6/17/20.

Lioudis, Nick. “Keynesian and Monetarist Economics: How Do They Differ?” Investopedia, <https://www.investopedia.com/ask/answers/012615/what-difference-between-keynesian-economics-and-monetarist-economics.asp>. Accessed 6/17/20.

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5. Haubrich, Joseph G, and Sarah Millington. “PCE and CPI Inflation: What’s the Difference?” *Federal Reserve Bank of Cleveland*, 17 Apr. 2014, [www.clevelandfed.org/newsroom-and-events/publications/economic-trends/2014-economic-trends/et-20140417-pce-and-cpi-inflation-whats-the-difference.aspx#:~:text=The%20CPI%20is%20based%20on,on%20goods%20and%20services%20purchased](http://www.clevelandfed.org/newsroom-and-events/publications/economic-trends/2014-economic-trends/et-20140417-pce-and-cpi-inflation-whats-the-difference.aspx#:~:text=The%20CPI%20is%20based%20on,on%20goods%20and%20services%20purchased). Accessed 6/16/20. [↑](#footnote-ref-5)
6. Warr, Richard S. “Everything You Need to Know about Inflation.” *World Economic Forum*, 17 June 2019, [www.weforum.org/agenda/2019/06/inflation-is-healthy-for-the-economy-but-too-much-can-trigger-a-recession-7d37501704](http://www.weforum.org/agenda/2019/06/inflation-is-healthy-for-the-economy-but-too-much-can-trigger-a-recession-7d37501704). Accessed 6/16/20 [↑](#footnote-ref-6)
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11. Majaski, Christina. “The Economic Effects of the New Deal.” *Investopedia*, 13 April 2020, <https://www.investopedia.com/articles/investing/011116/economic-effects-new-deal.asp>. Accessed 6/17/20. [↑](#footnote-ref-11)
12. Jahan, Sarwat and Chris Papageorgiou. “What Is Monetarism?” *International Monetary Fund*, March 2014, <https://www.easybib.com/mla8-format/website-citation/new>. Accessed 6/17/20. [↑](#footnote-ref-12)