The Three Great Thinkers Who Changed Economics

By Daniel Adler, Big History Project, adapted by Newsela staff on 07.30.16
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Spanning 300 years of history, from the dawn of the Industrial Age to modern times, three great thinkers changed economics.

They say economics is a study of mankind in the ordinary business of life. What choices do you make in everyday life? You shop for clothes. You buy food. Maybe you look for a job. To make these decisions, you must consider your needs, the costs, and your options. You are making economic decisions.

Imagine decisions like this happening all the time, all over the world. Modern society is formed by individual choices that form a complicated network. Every choice we make can have effects in our city, region, and even the world.

Economists try to study and understand the decisions people make. Governments, businesses, and regular people can use economics to understand how people make and use goods and services.
The three economists profiled here — Adam Smith, Karl Marx, and John Maynard Keynes — contributed to economics as a science. Still, economic thinking was around long before these men. This type of thinking goes back to the beginning of humankind.

The economics of the hunt

Economics doesn’t have a beginning. People have always thought about these questions.

Early humans, for example, spent a lot of time and energy hunting. Who would get the meat? Would they eat it immediately or save it?

From the earliest times, good economic decision-making was important to survival.

Hunter-gatherers lived in generally equal groups. Everyone had to work together to survive. Now, we are more focused on the individual. As humans formed into more organized societies, decisions about sharing resources or assigning jobs became more complicated.

But, for many thousands of years, humans didn’t focus on the group or the individual. They worked according to “custom” or “command.” Custom means people did work that was passed down from previous generations. Command means people worked to avoid punishment.

The medieval European blacksmith. The Indian farmer. The pyramid-building Egyptian slave. None of these people worked for their own goals, dreams, or wealth.

Today, it seems everyone wants to be rich. But earlier peoples had more complex attitudes toward money. Most people in the ancient civilizations of Egypt, Greece, Rome, and Asia didn’t think about getting rich.

Several major changes began around 1500. Overseas trade created new networks and globally-traded currency created an easy way to trade goods and store wealth.

This buying and selling became the “market system.”

By the 1600s and 1700s, both custom and command were weakening. People weren’t as motivated by survival, obedience, or tradition. They wanted to get rich.

Adam Smith lived and worked in this era, just before the Industrial Revolution.
Adam Smith (1723–1790) was born in Scotland just as the industrial system was replacing the traditional one. Profit was becoming the main motivation. Command and custom were on the way out.

This was the Enlightenment in Europe. People were interested in logical thinking, progress, and freedom.

Smith had many jobs: professor, government economic adviser, and customs commissioner for Scotland. These jobs gave him a comprehensive understanding of economics. His most famous book is *The Wealth of Nations.*
Smith wrote this book at the dawn of the Industrial Revolution. It describes a world increasingly dominated by commerce and capitalism. Smith gives his observations of a visit to a pin-making factory.

He describes the 18-step process to make the pins, which is split up. One man draws out the wire. Another man straightens the wire. A third man cuts the wire, and so on.

He observes that the process makes the factory more productive. He said that a factory of 10 workers could make 48,000 pins in a day. Every person in the factory would have to make about 4,800 pins a day. However, if they were working separately, Smith argues they would have made far fewer.

In other words, the division of labor helped. It allowed one man to be 4,800 times more productive than if he worked alone.

Smith also argued that people have a natural drive to improve their own lives. This is called self-interest. He argued that businesses will meet people’s demands. They do this by making the goods and services that people want. The people who make the goods and services are serving their own self-interest as well.

Competition between businesses was important, Smith believed. He suggested competition could ensure fair prices and quality products. It could also drive innovation and satisfy consumer demand. Basically, competition keeps everyone honest. If you don’t like one business, you can always go to another one instead.

Our society emerged from everyone following his or her own self-interest, Smith said.

Smith didn’t just see his own time accurately. He also predicted many of the successes of industrial capitalism. But he didn’t live to see the worst effects of the Industrial Revolution. Several decades later, the world met an economist whose criticisms of capitalism matched Smith’s optimism. That economist was Karl Marx.
Karl Marx

Karl Marx (1818–1883) was born during the Industrial Revolution. He came from a middle-class family in Prussia (now Germany and Poland).

He led an eventful life. For most of his professional life, Marx was a writer for newspapers. He was forced to move between Prussia, France, Belgium, and England because he was deported or blacklisted (banned) for his radical views.

Marx was against capitalism. The Industrial Revolution had created a factory system where factory owners had all the power. Marx saw injustice in this system and felt things had to change.
The working people in industrial European cities faced terrible conditions. Marx and his co-author Friedrich Engels were outraged by this, and channeled their anger into two books that formed the ideas of communism. *The Communist Manifesto* was published in 1848 and *Das Kapital* was published in 1867.

Marx saw the history of all societies as the history of class struggle. Every society must have a system to produce goods. Marx believed these systems created classes: the rulers and the ruled.

Slavery was the most basic example of this principle. Then came feudalism, where poor peasants worked on a rich noble’s land. Capitalism, where the owners paid the workers, was the next development. After capitalism, Marx believed, would come communism. He believed communism would bring about a classless society.

Why did Marx object to capitalism? He saw two groups operating in this system: the owners and the workers. The “capitalists” owned the machines and buildings used to make things. The workers owned nothing. All they had was the ability to work in exchange for their pay.

Marx felt that capitalists competing for profits would mistreat their workers. They would overwork them and underpay them. Also, some companies would fail because of competition. This would lead to workers losing jobs.

Marx was skeptical of new technology. New machines could add to unemployment by making human workers unnecessary. Machines could also make work dull and repetitive for the people who still had jobs.

Still, Marx saw capitalism as a necessary stage for building a society’s standard of living. But he felt the workers would become unhappy under capitalism. He predicted the workers would eventually overthrow the ruling class and then they would create a more equal society.

The new, more equal society would at first control the economy and distribute resources more evenly. Later, it would become an equal, classless society without private property.

Marx’s beliefs led to the ideas of Marxism. It is a theory for some, but for others it is also a call to action.

As a call to action, Marxism inspired various revolutions during the 1900s. This includes the Russian Revolution in 1917 and the rise of communist governments in China, Vietnam, Cuba, and many Eastern European nations.

Marx’s communism has since fizzled out. The U.S.S.R. collapsed in the 1990s. China and smaller communist countries have adopted systems more like capitalism.

As a theory, Marxism has survived. Some believe that communism’s decline means Marx was wrong. Others have taken his lesson to examine the social effects of economic systems.
Marx’s skepticism about capitalism started a conversation. It led people to talk about capitalism’s weaknesses and how it can be improved. Our third economist, John Maynard Keynes, was highly influential in confronting the problems of capitalism in the early 1900s.

**John Maynard Keynes**

John Maynard Keynes (1883–1946, last name rhymes with “rains”) was born into an educated family. During his life, he had many jobs, including as a professor and as an official in the British Treasury.

Keynes made many contributions to economics. He is perhaps most famous for his ideas about the Great Depression, the major economic crisis of the 1900s. The worldwide Depression lasted from the early 1930s to the mid-1940s. Unemployment in the United States increased from 3 to 25 percent during this time.
Keynes’s study of the Great Depression focused on how people saved money. Keynes argued that people saving too much could lead to economic ruin. In a weak economy, businesses wouldn’t hire as many people. People without jobs wouldn’t have money to buy things and support businesses. People would save more money, expecting tough times ahead. But their savings would run out eventually.

So, rational decisions by individuals (saving in hard times) could lead to irrational results (a cycle of economic decline).

Keynes believed only the government could break this cycle. The government could spend money that consumers and businesses could not. He believed in capitalism, but felt the Depression’s unique challenges required unique solutions.

This approach was tested in the 1930s and 1940s. President Franklin Roosevelt started “New Deal” programs that spent government money putting people to work. These programs were designed to stimulate, or boost, the economy in the early 1930s.

In the late 1930s, the federal government cut its spending. This caused the economy to weaken immediately. The Depression ended at the same time the government began to spend large amounts of money on World War II.

Some Keynesian policies had mixed results. Still, the overall picture seemed to confirm Keynes’s arguments. Until the 1970s, Keynesian thought dominated American economics.

The 1980s and 1990s saw a return to economic theories that went back to Adam Smith. The “Great Recession” of the 2000s has presented a new opportunity to debate Keynes’s ideas.

The power of economics

Let’s return to our initial question: What choices do you face in the ordinary business of your life? Smith, Marx, and Keynes all explained how individual choices fit into a larger system. Our decisions don’t just affect us. They affect our families, communities, countries, and even the world.

Economics is powerful because it can reveal the complex workings of society. As society goes about the ordinary business of life, economics is always there, in the background, affecting everybody.