Overview

The three most important economists were Adam Smith, Karl Marx, and John Maynard Keynes (pronounced *canes*). Each was a highly original thinker who developed economic theories that have been put into practice and have affected the world's economies for generations.

Adam Smith, a Scot and a philosopher who lived from 1723 to 1790, is considered the founder of modern Economics. Deep examination of the world of business led Smith to the conclusion that collectively the individuals in society, each acting in his or her own self-interest, manage to produce and purchase the goods and services that they, as a society, require. He called the mechanism by which this self-regulation occurs “the invisible hand,” in his groundbreaking book, *The Wealth of Nations*, published in 1776, the year of America’s Declaration of Independence.

Essentially, the butcher, the baker, and the candlestick maker produce the amount of meat, bread, and candlesticks they judge to be correct. Each buys the amount of meat, bread, and candlesticks that his/her household needs. And all of this happens without them consulting one another or without the king's men telling them how much to produce. In other words, it's the free market economy in action.

In making this discovery, Smith founded what is known as classical Economics. The key doctrine of classical Economics is that a *laissez-faire* attitude by government toward the marketplace will allow the “invisible hand” to guide everyone in their economic endeavors, create the greatest good for the greatest number of people, and generate economic growth. Smith also delved into the dynamics of the labor market, wealth accumulation, and productivity growth. His work gave generations of economists plenty to think about and expand upon.

Karl Marx, a German economist and philosopher who lived from 1818 to 1883, looked at capitalism from a more pessimistic and revolutionary viewpoint. Where Adam Smith saw harmony and growth, Marx saw instability, struggle, and decline. Marx believed that once the capitalist (the guy with the money and the
organizational skills to build a factory) has set up the means of production, all value is created by the labor involved in producing whatever is being produced. In Marx's view, presented in his 1867 tome *Das Kapital (Capital)*, a capitalist's profits come from exploiting labor—that is, from underpaying workers for the value that they are actually creating.

This situation of management exploiting labor, underlies the class struggle that Marx saw at the heart of capitalism, and he predicted that that struggle would ultimately destroy capitalism. To Marx, class struggle is not only inherent in the system—because of the tension between capitalists and workers—but also intensifies over time. The struggle intensifies as businesses eventually become larger and larger and the incapacity of the system to withstand its cyclical crises will make it collapse. Ultimately, in Marx's view, society moves to a two-class system of a few wealthy capitalists and a mass of underpaid, underprivileged workers.

In practice, however, two events have undermined Marx's theories. First, socialist, centrally planned economies have proven far less efficient at producing and delivering goods and services—that is, at creating the greatest good for the greatest number of people—than capitalist systems. Second, workers' incomes have actually risen over time. In other words, they are somewhat sharing in the growth of the economy as well as some of the profits.

**John Maynard Keynes**, a British economist and financial genius who lived from 1883 to 1946, also examined capitalism and came up with some extremely influential views. They were, however, quite different from those of Karl Marx and, for that matter, Adam Smith. In 1936, he published his *General Theory of Employment, Interest, and Money*.

The larger significance of Keynes's work lies in the view he put forth about the role of government in a capitalist economy. Keynes developed his theories during the Great Depression. It's worth noting at this point that in the United States unemployment reached about 25 percent and millions of people had lost their life savings as well as their jobs. Moreover, there was no clear path out of the depression, which led people to seriously question whether Smith's "invisible hand"
was still guiding things along. Was this worldwide collapse of economic activity the end of capitalism?

Keynes believed that there was only one way out, and that was for the government to start spending in order to put money into private-sector pockets and get demand for goods and services up and running again. As it turns out, President Franklin D. Roosevelt gave this remedy a try when he started a massive public works program to employ a portion of the unemployed workforce. However, the United States entry into World War II rendered this a less than pure experiment in government spending. The war effort boosted production to extremely high levels (to make guns, ammunition, planes, trucks, etc.) while simultaneously taking millions of men out of the civilian workforce and into uniform.

The validity of Keynes's prescription for a sluggish economy—using government spending to prime the pump—are still debated today.

Many other economists advanced theories and otherwise added to the body of knowledge in the science. However, Adam Smith, Karl Marx, and John Maynard Keynes (later Lord Keynes) are widely recognized as the most influential—Smith because he founded and formalized the science of economics, Marx because he challenged capitalism and had such a forceful impact on society and politics, and Keynes because he prompted new practices as well as new theories in the world of economic policy. Keynes also played a key role in the founding of the International Monetary Fund and in other political economic measures taken at the end of World War II.