SMITH, MARX, AND KEYNES

BIOGRAPHY

BIG HISTORY PROJECT
Adam Smith
Born
June 5, 1723
Kirkcaldy, Scotland

Karl Marx
Born
May 5, 1818
Trier, Prussia

John Maynard Keynes
Born
June 5, 1883
Cambridge, England

Died
July 17, 1790
Edinburgh, Scotland

Died
March 14, 1883
London, England

Died
April 21, 1946
Sussex, England
Spanning 300 years of history, from the dawn of the industrial age to modern times, three great thinkers changed economics. They developed their own groundbreaking theories on commerce, labor, and the global economy.
Economic thought vs. economic behavior

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 analyze 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 or a founder. 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, effective economic decision-making was important to survival.
Hunter-gatherers lived in generally equal groups. Everyone had to work together to survive. Now, we are focused more on the individual. As humans formed into more organized societies, decisions about sharing resources or assigning jobs became more complex.

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 violence or 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.

Those who worked with money (merchants and lenders for example) were often viewed suspiciously. Sometimes they were even punished for innovating within their trades. Consequently, skills and technology advanced gradually. Similar jobs and standards extended across many generations.

Several major changes began around 1500. Overseas trade created new networks and boosted collective learning. Globally traded currency created an easy way to trade goods and store wealth. Markets were once places to buy and sell physical goods. Now they began to merge into the market system. The market system can form the basis of an entire society.

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

Scotsman Adam Smith (1723 — 1790) was born 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, freedom, and secularism.


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 less.

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 markets 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 according to Smith. 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. This view was reassuring to a world undergoing a great transition. It was certainly popular. The first edition of *The Wealth of Nations* sold out within six months.

Smith didn’t just see his own time accurately. He also predicted much of the economic future. Free-market capitalism has been the world’s dominant economic model for the last 200-plus years. Today we call it “economic liberalism.” Countries around the world continue to liberalize their economies. That is, they are becoming more capitalist.

Smith 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 in the midst of the Industrial Revolution. He came from a middle-class family in Prussia (present-day Germany and Poland).

He led an eventful life. He was jailed for public drunkenness as a college student. His home and personal appearance were sloppy. He spent money freely, causing financial problems for his family. For most of his professional life, Marx was a writer for a variety of newspapers. He moved between Prussia, France, Belgium, and England. He had to move because he was deported or blacklisted (banned) for his radical views.

Marx was extremely critical of capitalism. The Industrial Revolution had created a factory system where factory owners had all the power. Marx saw injustice and inequality in this system. He 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. They channeled their anger into two monumental written works. Their books formed the basis of modern communism. *The Communist Manifesto* was published in 1848. A four-volume 2,500 page masterwork, *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.
As a theory, Marxism has survived. Some believe that communism’s decline disproves Marx. Others have taken his lesson to examine the social effects of economic systems. Even though capitalism is dominant around the world, Marx taught us to seriously examine and criticize capitalism when necessary.

Marx’s skepticism about capitalism started a conversation. It led people to talk about its weaknesses and how it can be improved. Our third economist, John Maynard Keynes, was highly influential in confronting the issues 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 worked in academia, economic publishing and financial advising. He also worked on currency speculation 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. The national income was cut in half.


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 collective irrational results (an unbreakable 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 generally endorsed free-market capitalism, but felt the Depression’s unique challenges required unique solutions.

This approach was tested in the 1930s and ’40s. President Franklin Roosevelt started “New Deal” programs that spent government money putting people to work. These programs were designed to stimulate the economy in the early 1930s.

In the late 30s, the federal government cut its budget. 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. Organizations such as the International Monetary Fund and the World Bank also are based on the Keynesian model.

The 1980s and ’90s saw a renewal of “classical” economic theories. These theories 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. It is observed by some, influenced by others, yet it affects everybody.
Sources


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