Famous economists

How did economics develop as a subject for study? And who helped to shape the way economists think? Here we highlight the contributions of some famous economists

Adam Smith (1723–90)

In his book *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776), Adam Smith was perhaps the first writer to draw together economic ideas. This included key ideas still recognised today, for example:

- the division of labour, which captures the benefits from specialisation
- the 'invisible hand', by which the pursuit of self-interest by economic agents guides the allocation of resources

Smith was also aware that self-interest could sometimes be taken too far:

'People of the same trade seldom meet together, even for merriment or diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices…' (*The Wealth of Nations*, 1776)

David Ricardo (1772–1823)

Ricardo is remembered for the theory of comparative advantage, described in his book *On the Principles of Political Economy and Taxation* (1817). This identifies the potential gains from specialisation and international trade, and is used to justify the liberalisation of trade. Both Ricardo and Smith were against the idea of protectionism.

Ricardo also wrote about diminishing returns, especially in agriculture, where expansion of production would require the use of less productive land.

Ricardo argued that the value of a good was derived from the quantity of labour needed to produce it, which became known as the labour theory of value.

'Possessing utility, commodities derive their exchangeable value from two sources: from their scarcity, and from the quantity of labour required to obtain them.' (*On the Principles of Political Economy and Taxation*, 1817)

Thomas Malthus (1766–1834)

Malthus predicted that war and famine would always prevent societies from enjoying continuous improvements in the standard of living. He is best known for his *Essay on the Principle of Population* (1798).

He argued that although populations would grow exponentially, food supply would only grow arithmetically. Famine and war would constrain the growth of population, and incomes would remain at the subsistence level. Malthusian ideas are still popular in some environmental pressure groups today.

'Population, when unchecked, increases in a geometrical ratio. Subsistence only increases in an arithmetical ratio.' (*An Essay on the Principle of Population*, 1798)

Alfred Marshall (1842–1924)

Although Alfred Marshall may not be such a household name as some of the other economists mentioned here, his influence on economics was substantial. His book *Principles of Economics* (1890) laid the foundations for economic analysis as we know it today — indeed, the book marked the appearance of the word 'economics'.

Marshall's book embedded the neoclassical approach in economics teaching and writing. It introduced the diagrammatic approach to economic analysis, as well as affirming the use of mathematics. Marshall pioneered ideas such as consumer and producer surplus, together with the marginal utility approach to consumer theory. The demand and supply diagrams you draw today were first drawn by Marshall. He also highlighted the importance of the ceteris paribus assumption in economic analysis.

'It is sometimes said that the laws of economics are "hypothetical." Of course, like every other science, it undertakes to study the effects which will be produced by certain causes, not absolutely, but subject to the condition that *other things are equal*, and that the causes are able to work out their effects undisturbed.' (*Principles of Economics*, 1890)

John Maynard Keynes (1883–1946)

Although Keynes was a student of Alfred Marshall, he broke with the neoclassical approach and argued that an economy could settle in an equilibrium position that was below full employment. This had particular resonance in the context of the Great Depression of the inter-war period. Keynes's book *The General Theory of Employment, Interest and Money* (1936), launched the sub-discipline of macroeconomics.

The *General Theory* argued that macroeconomic equilibrium was determined by demand, rather than supply, and that government intervention to stimulate aggregate demand could be desirable in times of high unemployment.

Keynes was politically active, leading the British delegation at the Bretton Woods conference in 1944. This established the International Monetary Fund and the World Bank, and designed the dollar standard for fixing exchange rates, which lasted until the early 1970s.

'The important thing for government is not to do things which individuals are doing already, and to do them a little better or a little worse; but to do those things which at present are not done at all.' (*The End of Laissez-Faire*, 1926)

Milton Friedman (1912–2006)

Milton Friedman opposed the Keynesian approach. He was awarded the Nobel prize in economic sciences in 1976. This was for his work on the analysis of consumption and on monetary history.

Friedman led what became known as the 'monetarist school', advocating the importance of monetary policy in creating a stable macroeconomy, through control of the money supply.

He acted as an advisor to President Reagan and Margaret Thatcher, the British prime minister, during the 1980s, in which period both the US and UK governments adopted monetarist strategies.

'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.' (*The Counter-Revolution in Monetary Theory*, 1970)

Amartya Sen (1933–)

Amartya Sen's contribution to thinking about development has been considerable. He was awarded the Nobel prize in economic sciences in 1998 for his work on welfare economics.

His work changed the way in which we think about the causes of famines. He argued that famines could occur even when there was enough food, when people did not have sufficient command over resources to obtain the food that was available, in other words, when there is a failing in people's *entitlements*.

Sen argued that wellbeing depends not just upon income, but on capabilities — what people are capable of achieving. It was this thinking that underpinned the United Nation's human development index (HDI), which was designed as an indicator of the state of human development in a society.

This approach argued that the level of human development depends upon resources, but also upon the extent to which people are capable of enjoying those resources. This depends upon their knowledge (education) and their expected longevity (life expectancy).

'Poverty is not just a lack of money; it is not having the capability to realize one's full potential as a human being.' (*Development as Freedom*, 1999)

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