The American Economic Association was founded in 1885 at a series of meetings in Saratoga Springs, New York, from September 8 through September 10. These organizational meetings were held in conjunction with the annual meeting of the American Historical Association because "nearly all who wished to form the Economic Association belonged at the same time to the Historical Association." The American Economic Association was formally incorporated in Washington, DC, on February 3, 1923. Its purposes today are identical to those identified on September 8, 1885: (1) The encouragement of economic research; (2) The issue of publications on economic subjects; and (3) The encouragement of perfect freedom in all economic discussion.

Richard T. Ely (then of Johns Hopkins University and later of the University of Wisconsin) and Henry C. Adams (of the University of Michigan and Cornell University) were the primary organizers of the society. Virtually all of the founders were college or university professors. A young Woodrow Wilson of Bryn Mawr College (and later President of Princeton University) was among the active proponents; he was one of the original 24 governing Council members. A formal vote to organize was completed on September 9, 1885, after which "Henry C. Adams was requested by vote of the society to act as chairman until his successor should be appointed, and Dr. R. T. Ely was requested, in like manner, to act as secretary and treasurer for the same period." The following day General [in the Union Army] Francis Amasa Walker, then president of MIT, was elected the first president of the American Economic Association. He served for seven years. In 1886, the Association had 182 members.
What was desired was a society which, free from all trammels, should seek truth from all sources, should be ready to give a respectful hearing to every new idea, and should shun no revelation of facts . . . (p. 6)

In the study of the policy of government, especially with respect to restrictions on trade and to protection of domestic manufactures, we take no partisan attitude. (p. 7) [A variation of this statement is included in the Association’s formal Charter (of 1923), which states: The Association as such will take no partisan attitude, nor will it commit its members to any position on practical economic questions.]

The idea, then, is to publish matter worthy of publication as fast as we may be able to do so. If the series of monographs should in course of time grow naturally into a magazine, we could rejoice in a substantial success. (p. 14) [Twenty-five years later, in March 1911, this success was realized when the American Economic Review published its first article in Volume 1, Number 1, “Some Unsettled Problems of Irrigation,” by Katharine Coman of Wellesley College].

One aim of our association should be the education of public opinion in regard to economic questions and economic literature. In no other science is there so much quackery and it must be our province to expose it and bring it into merited contempt. (p. 15)

We hold that the doctrine of laissez-faire is unsafe in politics and unsound in morals, and that it suggests an inadequate explanation of the relations between the state and the citizens. (p. 16) No one invited to join this association, certainly no one who has been active in calling this meeting, contemplates a form of pure socialism. (pp. 15–16)

[It is not easy to arouse interest in an association which professes nothing. (p. 19)

This is not a rebellion against Adam Smith, Malthus, Ricardo and Mill; only a struggle for freedom of development of their work. (p. 22)

Any person may become a member of this Association by paying three dollars, and after the first year may continue a member by paying an annual fee of three dollars. (p. 36)

George Joseph Stigler was a University of Chicago economist who developed search theory and studied the effects of government regulation, arguing that people use regulation for personal gain rather than for the general good. His writings include "The Economics of Information" (1961), "What Can Regulators Regulate: The Case of Electricity" (with Claire Friedland) (1962), "A Theory of Oligopoly" (1964), "The Theory of Economic Regulation" (1971), and The Theory of Competitive Price (1942). He was a founder of the Mont Pelerin Society and won the 1982 Nobel Memorial Prize in Economics. He was president of the AEA in 1964.

The basic role of the scientist in public policy, therefore, is that of establishing the costs and benefits of alternative institutional arrangements.


Smith and his predecessors and successors almost always concentrated on advising the state what it should do, or refrain from doing. I certainly did for the first decades of my life as an economist. Hardly ever did anyone undertake the different and more fundamental task of explaining what states actually do, of discovering what are the forces that determine which policies will actually be adopted by a government. And yet, what is the purpose in urging a state to have, say, free trade, as we economists have so vigorously done for two centuries, when protectionism is common and persistent?

Stigler, Memoirs of an Unregulated Economist, 1988

Some readers will probably know my answers already... it is distressing how often one can guess the answer given to an economic question merely by knowing who asks it.


To tell an economist that he chooses that type of work and that viewpoint which will maximize his income is, he will hotly say, a studied insult. Such market-oriented behavior will be characterized not with our customary phrases such as consumer sovereignty, but in terms as harsh as "intellectual prostitution." To adapt one's views to one's audience is hardly to be distinguished from the falsification of evidence and other disreputable behavior.

Stigler, "Do Economists Matter?" in The Economist as Preacher, and Other Essays, 1982

The watered-down encyclopedia which constitutes the present course in beginning college economics does not teach the student how to think on economic questions. The brief exposure to each of a vast array of techniques and problems leaves with the student no basic economic logic with which to analyze the economic questions he will face as a citizen. The student will memorize a few facts, diagrams, and policy recommendations, and ten years later will be as untutored in economics as the day he entered the class.

Francis Edgeworth was a British mathematical economist who made significant contributions to neoclassical economic theory and statistical work. He introduced indifference curves and of course contributed to the famous Edgeworth–Bowley box. He was the founding editor of The Economic Journal in 1891, and continued as editor for more than 20 years. In his most famous book, Mathematical Psychics: An Essay on the Application of Mathematics to the Moral Sciences (1881), he developed a precursor to the economic theory of "the core."

International trade meaning in plain English trade between nations, it is not surprising that the term should mean something else in Political Economy.

Edgeworth, *Papers Relating to Political Economy*, Volume 2, 1925

Our only question here is whether, if that ascent is to be made, is it better to ascend by the steep but solid steps of mathematical reasoning, or to beguile the severity of the ascent by the zigzag windings of the flowery path of literature. It is tenable that the former course is safest, as not allowing us to forget at what a dangerous height of abstraction we proceed.

Edgeworth, "Presidential Address delivered to Section F of the British Association."
in *Papers Relating To Political Economy*, 1889

To precise the ideas, let there be granted to the science of pleasure what is granted to the science of energy; to imagine an ideally perfect instrument, a psychophysical machine, continually registering the height of pleasure experienced by an individual, exactly according to the verdict of consciousness, or rather diverging therefrom according to the law of errors. From moment to moment the hedonimeter varies; the delicate index now flickering with the flutter of the passions, now steadied by intellectual activity, low sunk whole hours in the neighbourhood of zero, or momentarily springing up towards infinity. The continually indicated height is registered by photographic or other frictionless apparatus upon a uniformly moving vertical plane. Then the quantity of happiness between two epochs is represented by the area contained between the zero-line, perpendiculars thereto at the points corresponding to the epochs, and the curve traced by the index . . . .

Thomas Robert Malthus was a British parson/political economist who argued that absent checks from misery, vice, or moral restraint (sexual abstinence), a geometrically growing population would outstrip an arithmetically expanding food supply. (In later writings he modified his arguments.) His work on population dynamics influenced Darwin and led to what became known as the Malthusian Doctrine that predicted decreasing standards of living. His magnum opus is An Essay on the Principle of Population (1798).

My dear Ricardo,

I have been afraid of going on with our discussions, though I have much to say on the subject, lest they should take up too much of our time. When a difficulty strikes me, and I propose it to you, I am inclined to be satisfied with hearing your opinion on the subject without rejoinder. If you satisfy me, the matter is settled. If you do not, I hold my opinion, comforting myself with the reflection that having submitted my thoughts to the most ingenious man I know, and he not shewing me that I am wrong, I am entitled to fancy that I am right, forgetting perhaps all along that it may be only owing to my prejudices or stupidity that I am not convinced.

Ever most truly yours, T. R. Malthus.


I think I may fairly make two postulata.

First, That food is necessary to the existence of men.

Secondly, That the passion between the sexes is necessary, and will remain nearly in its present state . . .

I do not know that any writer has supposed that on this earth man will ultimately be able to live without food. But Mr. Goodwin has conjectured that the passion between the sexes may in time be extinguished . . . the best arguments for the perfectibility of man are drawn from a contemplation of the great progress that he has already made from the savage state, and the difficulty of saying where he is to stop. But towards the extinction of the passion between the sexes, no progress whatever has hitherto been made. It appears to exist in as much force at present as it did two thousand, or four thousand years ago . . .

Assuming then, my postulata as granted, I say, that the power of population is indefinitely greater than the power in the earth to produce subsistence for man. Population, when unchecked, increases in a geometrical ratio. Subsistence increases only in an arithmetical ratio. A slight acquaintance with numbers will shew the immensity of the first power in comparison of the second . . .

This implies a strong and constantly operating check on population from the difficulty of subsistence. This difficulty must fall some where; and must necessarily be severely felt by a large portion of mankind.
Richard Theodore Ely, a University of Wisconsin economist, was one of the founders of the American Economic Association, which was spawned by progressive American economists who tended to support the German historical school’s approach to activist government policy. His writings include Labor Movement in America (1886) and Monopolies and Trusts (1900). He was secretary of the AEA from 1885 to 1892, and president from 1900 to 1901.

Some of the younger men not present at the founding of our Association have regarded the controversy about inductive and deductive method as a barren and fruitless one. It is because they did not understand the situation at that time. There was opposition to historical, statistical study as an essential means of discovering economic truth, and emphasis was laid upon the so-called historical method because at that time it was necessary. Here and there it may be undue emphasis was laid upon this, because, as Adam Smith says, “when the twig is bent too much in one direction it is necessary to bend it in the other to make it straight.” It is only those who fail to realize the situation at that time—so hard to understand at the present—who can regard as futile and meaningless the controversy regarding induction and deduction, statistical and historical method.


The students of elementary economics should have presented to them a clear-cut, well-defined system of thought. This should in one way be taught dogmatically, in another sense not. Let me explain my paradox. In elementary teaching a certain element of dogmatism is pedagogically necessary. In the case of economics the dogmatism consists in learning the author who is being studied and confining attention first of all to his thought. The teacher should, however, say frankly, “there are other authors just as able as our author, perhaps a good deal abler, who looks [sic] at things differently. The last word has not by any means been said upon any of the important theoretical and practical subjects in economics; but, as a basis for further work, we will endeavor to understand this one writer.”


We saw a good deal of poverty on the one hand and a concentration of wealth on the other hand, and we did not feel that all was well with our country. We felt that something should be done to bring about better conditions . . . We thought that by getting down into this life and studying it carefully, we would be able to do something toward directing the great forces shaping our life, and directing them in such a way as to bring improvement.

Ely, The Story of Economics in the United States, 1931
Karl Marx was a philosopher and political economist who adapted classical economic theory to critique capitalism. He argued that markets alienate individuals from their true selves, and that capitalists extract surplus value from human labor. His ideas have inspired many to advocate for revolutionary political change aimed at upsetting capitalism and reducing the gap in wealth dividing the rich from the poor. His writings include Das Kapital (1867), Economic and Philosophical Manuscripts of 1844 (1932), and Manifesto of the Communist Party (with Friedrich Engels) (1848).

You are horrified at our intending to do away with private property. But in your existing society, private property is already done away with for nine-tenths of the population; its existence for the few is solely due to its non-existence in the hands of those nine-tenths. You reproach us, therefore, with intending to do away with a form of property, the necessary condition for whose existence is the non-existence of any property for the immense majority of society.

Marx and Engels, *The Communist Manifesto*, 1848

This is the abolition of the capitalist mode of production within capitalist production itself, a self-destructive contradiction, which represents on its face a mere phase of transition to a new form of production. It manifests its contradictory nature by its effects. It establishes a monopoly in certain spheres and thereby challenges the interference of the state. It reproduces a new aristocracy of finance, a new sort of parasites in the shape of promoters, speculators and merely nominal directors; a whole system of swindling and cheating by means of corporation juggling, stock jobbing, and stock speculation. It is private production without the control of private property.


Capital is money: Capital is commodities... Because it is value, it has acquired the occult quality of being able to add value to itself. It brings forth living offspring, or, at the least, lays golden eggs.

Marx, *Capital*, Volume 1, 1867

In the social production of their existence, men inevitably enter into definite relations, which are independent of their will, namely relations of production appropriate to a given stage in the development of their material forces of production. The totality of these relations of production constitutes the economic structure of society, the real foundation, on which arises a legal and political superstructure and to which correspond definite forms of social consciousness.

Marx, *A Contribution to the Critique of Political Economy*, 1859
John Maynard Keynes was a British economist whose work during the Great Depression significantly influenced government policy toward business cycles, and led to a separate field of macroeconomics. He emphasized the complexity and uncertainty inherent in the aggregate economy, and advocated a pragmatic rather than dogmatic approach to policy. Among his major writings are: The Economic Consequences of the Peace (1919), A Treatise on Money (1930), and The General Theory of Employment, Interest and Money (1936).

... professional investment may be likened to those newspaper competitions in which the competitors have to pick out the six prettiest faces from a hundred photographs, the prize being awarded to the competitor whose choice most nearly corresponds to the average preferences of the competitors as a whole; so that each competitor has to pick, not those faces which he himself finds prettiest, but those which he thinks likeliest to catch the fancy of the other competitors, all of whom are looking at the problem from the same point of view.


There is no clear evidence from experience that the investment policy which is socially advantageous coincides with that which is most profitable.


Thus if the animal spirits are dimmed and the spontaneous optimism falters, leaving us to depend on nothing but a mathematical expectation, enterprise will fade and die; though fears of loss may have a basis no more reasonable than hope of profit had before.


When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done.


I do not know which makes a man more conservative—to know nothing but the present, or nothing but the past.

Keynes, *The End of Laissez-Faire*, 1926

But the long run is a misleading guide to current affairs. In the long run we are all dead. Economists set themselves too easy, too useless a task if in tempestuous seasons they can only tell us that when the storm is long past the ocean is flat again.

Alfred Marshall was a British economist, whose famous textbook combined older classical school ideas with marginalist economics, forming the foundation of neoclassical microeconomic analysis. He saw supply and demand as an “engine of analysis” to be used in conjunction with an intuitive understanding of the economy. His most important writing is Principles of Economics (1890), which went through nine editions while popularizing the partial equilibrium supply/demand framework.

Economics is a study of men as they live and move and think in the ordinary business of life.

Marshall, *Principles of Economics*, 1890

The Mecca of the economist lies in economic biology rather than in economic dynamics. But biological conceptions are more complex than those of mechanics; a volume on Foundations must therefore give a relatively large place to mechanical analogies; and frequent use is made of the term “equilibrium,” which suggests something of statical analogy. This fact, combined with the predominant attention paid in the present volume to the normal conditions of life in the modern age, has suggested the notion that its central idea is “statical,” rather than “dynamical.” But in fact it is concerned throughout with the forces that cause movement: and its key-note is that of dynamics rather than statics.

Marshall, *Principles of Economics*, 1890

Natura non facit saltum.

Marshall, *Principles of Economics*, 1890

A man is likely to be a better economist if he trusts to his common sense, and practical instincts, than if he professes to study the theory of value and is resolved to find it easy.

Marshall, *Principles of Economics*, 1890

The element of time is a chief cause of those difficulties in economic investigations which make it necessary for man with his limited powers to go step by step; breaking up a complex question, studying one bit at a time, and at last combining his partial solutions into a more or less complete solution of the whole riddle. In breaking it up, he segregates those disturbing causes, whose wanderings happen to be inconvenient, for the time in a pound called Ceteris Paribus. The study of some group of tendencies is isolated by the assumption other things being equal: the existence of other tendencies is not denied, but their disturbing effect is neglected for a time.

Marshall, *Principles of Economics*, 1890
Milton Friedman was a University of Chicago economist who advocated the advantages of free competitive markets and helped develop monetarism and the Chicago approach to price theory. He was influential in conceptualizing the permanent income hypothesis, the natural rate of unemployment, and positive economics. His writings include A Monetary History of the United States (with Anna Schwartz) (1963) and Capitalism and Freedom (1962). He was awarded the 1951 John Bates Clark Medal, and the 1976 Nobel Memorial Prize in Economics. He was president of the AEA in 1967.

In monetary matters, appearances are deceiving; the important relationships are often precisely the reverse of those that strike the eye.


Because we live in a largely free society, we tend to forget how limited is the span of time and the part of the globe for which there has ever been anything like political freedom: the typical state of mankind is tyranny, servitude, and misery. The nineteenth century and early twentieth century in the Western world stand out as striking exceptions to general trend of historical development. Political freedom in this instance clearly came along with the free market and the development of capitalist institutions. So also did political freedom in the golden age of Greece and in the early days of the Roman era.

Friedman, *Capitalism and Freedom*, 1962

With respect to teachers’ salaries, the major problem is not that they are too low on the average—they may well be too high on the average—but that they are too uniform and rigid. Poor teachers are grossly overpaid and good teachers grossly underpaid. Salary schedules tend to be uniform and determined far more by seniority, degrees received, and teaching certificates acquired than by merit.

Friedman, *Capitalism and Freedom*, 1962

Observed facts are necessarily finite in number; possible hypotheses, infinite. If there is one hypothesis that is consistent with the available evidence, there are always an infinite number that are.

Friedman, *Essays in Positive Economics*, 1953

Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible. This is a fundamentally subversive doctrine.

Friedman, *Capitalism and Freedom*, 1962

No major institution in the U.S. has so poor a record of performance over so long a period as the Federal Reserve, yet so high a public recognition.

Léon Walras was a French economist whose work contributed to both the marginalist revolution and the creation of general equilibrium theory. He developed a theory of marginal utility three years later than, but independently of, William Stanley Jevons and Carl Menger. His most important work is Elements of Pure Economics (1874, 1877), in which he developed the first comprehensive mathematical analysis of general economic equilibrium.

As for those economists who do not know any mathematics, who do not even know what is meant by mathematics and yet have taken the stand that mathematics cannot possibly serve to elucidate economic principles, let them go their way repeating that “human liberty will never allow itself to be cast into equations” or that “mathematics ignores frictions which are everything in social science” and other equally forceful and flowery phrases. They can never prevent the theory of the determination of prices under free competition from becoming a mathematical theory. Hence, they will always have to face the alternative either of steering clear of this discipline and consequently elaborating a theory of applied economics without recourse to a theory of pure economics or of tackling the problems of pure economics without the necessary equipment, thus producing not only very bad pure economics but also very bad mathematics.

Walras, Elements of Pure Economics, 4th ed., 1900

On the afternoon of June 23, 1903, I met again at the door of my office the young professor, Henry L. Moore, of Columbia University of New York, who, after having explained to me the difficulties he himself had encountered in America, said “You must recognize my dear M. Walras, that for a scientific revolution such as you wish to make in economics, it requires 50 years.” “That is the exact period,” I responded.

Walras, Correspondence of Léon Walras and Related Papers, Volume I, 1965

We are now in a position to formulate the law of the establishment of equilibrium prices in the case of the exchange of several commodities for one another through the medium of a numeraire: Given several commodities, which are exchanged for one another through the medium of a numeraire, for the market to be in a state of equilibrium or for the price of each and every commodity in terms of the numeraire to be stationary, it is necessary and sufficient that at these prices the effective demand for each commodity equal its effective offer.

Walras, Elements of Pure Economics, 4th ed., 1900
Joan Robinson was a British economist who made wide-ranging and provocative contributions to economic theory, and argued strongly against the use of free markets. Her early work was on economic theory and imperfect competition, but she later wrote about capital theory, Marxist economics, growth theory, and macroeconomics. Her writings include *The Economics of Imperfect Competition* (1933), in which she introduced the term monopsony and popularized marginal revenue curves, and *The Accumulation of Capital* (1956), which expands Keynesianism into the long run.

Wealth, as the copy-book maxims tell us, is not necessarily a source of satisfaction. There are two ways of satisfying desires: one is to get more and the other to want less. Moreover human beings do not pursue satisfaction in a direct and consistent manner; they are constantly going a long way out of the way to torment themselves. But, taken by and large, as individuals, groups and nations, they do pursue wealth, and the very fact that human beings are interested in wealth justifies some of them (called economists) in talking about it, without being obliged to take a view on the wisdom or folly of the race.


Though Marx is more sympathetic, in many ways, to a modern mind, than the orthodox economists, there is no need to turn him, as many seek to do, into an inspired prophet.


Economics is "some" use, but it would have been a great deal more if the Keynesian revolution had really succeeded.

Robinson, "Foreword." In *After Keynes: Papers Presented to Section F (Economics) at the 1972 Annual Meeting of the British Association for the Advancement of Science*, ed. British Association for the Advancement of Science Section F (Economics) and Joan Robinson, 1973

One reason why modern life is so uncomfortable is that we have grown self-conscious about things that used to be taken for granted. Formerly people believed what they believed because they thought it was true, or because it was what all right-thinking people thought. But since Freud exposed to us our propensity to rationalization and Marx showed how our ideas spring from ideologies we have begun to ask: Why do I believe what I believe? The fact that we ask such questions implies that we think that there is an answer to be found but, even if we could answer them at one layer, another remains behind: Why do I believe what I believe about what it is that makes me believe it? So we remain in an impenetrable fog. Truth is no longer true. Evil is no longer wicked. 'It all depends on what you mean.' But this makes life impossible—we must find a way through.

Thorstein Veblen studied under John Bates Clark as an undergraduate at Carleton College. As a leader in the institutional economics movement, he developed an evolutionary theory of economics driven by the human instincts of emulation and predation, and coined the term “conspicuous consumption.” His writings include Theory of the Leisure Class (1899), The Theory of Business Enterprise (1904), and “Why is Economics Not an Evolutionary Science?” (1898). When offered the presidency of the AEA, he declined.

Indeed except for a stubborn prejudice to the contrary, the fact should be readily seen that the boards (of university trustees) are of no material use in any connection; their sole effectual function being to interfere with the academic management in matters that are not of the nature of business, and that lie outside their competence and outside the range of their habitual interest.

Veblen, The Higher Learning in America, 1918

The hedonistic conception of man is that of a lightening calculator of pleasure and pains, who oscillates like a homogeneous globule of desire of happiness under the impulse of stimuli that shift him about the area, but leave him intact. He has neither antecedent nor consequent. He is an isolated, definitive human datum in stable equilibrium except for the buffets of the impinging forces that displace him in one direction or another. Self-imposed in elemental space, he spins symmetrically about his own spiritual axis until the parallelogram of forces bears down upon him, whereupon he follows the line of the resultant. When the force of the impact is spent, he comes to rest, a self-contained globule of desire as before.

Veblen, “Why is Economics Not an Evolutionary Science?” in The Place of Modern Science, in Modern Civilization, 1919

Human nature being what it is, the struggle of each to possess more than his neighbor is inseparable from the institution of private property.


The economic welfare of the community at large is best served by a facile and uninterrupted interplay of the various processes which make up the industrial system at large; but the pecuniary interests of the business men in whose hands lies the discretion in the matter are not necessarily best served by an unbroken maintenance of the industrial balance.

Veblen, The Theory of Business Enterprise, 1904
John von Neumann was an Institute of Advanced Study mathematician who made significant contributions to mathematics, physics, and operations research, as well as to economics. Together with Oskar Morgenstern, von Neumann pioneered game theory, which he saw as the mathematics of social science, developing the famous minimax strategy and inventing backward induction. He coauthored, with Oskar Morgenstern, the classic Theory of Games and Economic Behavior (1944).

We hope to establish satisfactorily, after developing a few plausible schematizations, that the typical problems of economic behavior become strictly identical with the mathematical notions of suitable games of strategy.

von Neumann and Morgenstern, Theory of Games and Economic Behavior, 1944

Anyone who considers arithmetical methods of producing random digits is, of course, in a state of sin.


As a mathematical discipline travels far from its empirical source, or still more, if it is a second and third generation only indirectly inspired by ideas coming from “reality,” it is beset with very grave dangers. It becomes more and more purely aestheticizing, more and more purely l’art pour l’art. This need not be bad if the field is surrounded by correlated subjects, which still have closer empirical connections, or if the discipline is under the influence of men with an exceptionally well-developed taste. But there is a grave danger that the subject will develop along the line of least resistance, that the stream, so far from its source, will separate into a multitude of insignificant branches, and that the discipline will become a disorganized mass of details and complexities. In other words, at a great distance from its empirical source, or after much “abstract” inbreeding, a mathematical subject is in danger of degeneration.

von Neumann: Collected Works: Volume 1, 1963

A complete discussion of automata can be obtained only by taking a broader view of these things and considering automata which can have outputs something like themselves. Now, one has to be careful what one means by this. There is no question of producing matter out of nothing. Rather, one imagines automata which can modify objects similar to themselves, or effect syntheses by picking up parts and putting them together, or take synthesized entities apart.

von Neumann, Theory of Self-Reproducing Automata, 1966
Friedrich August von Hayek was an Austrian economist and philosopher who envisioned the economy as a complex system. He believed that economic analysis had to go far beyond analytic models to be useful and was an eloquent defender of the free market system. His writings include The Road to Serfdom (1944) and Law, Legislation and Liberty (1973, 1976, and 1979). He was awarded the 1974 Nobel Memorial Prize in Economics.

One reason why economists are increasingly apt to forget about the constant small changes which make up the whole economic picture is probably their growing preoccupation with statistical aggregates, which show a very much greater stability than the movements of the details. The comparative stability of the aggregates cannot, however, be accounted for—as the statisticians occasionally seem to be inclined to do—by the “law of large numbers” or the mutual compensation of random changes.


The curious task of economics is to demonstrate to men how little they know about what they imagine they can design.

Hayek, The Fatal Conceit, 1988

Nobody can be a great economist who is only an economist—and I am even tempted to add that the economist who is only an economist is likely to become a nuisance if not a positive danger.

Hayek, Studies in Philosophy, Politics, and Economics, 1967

I am far from denying that in our system equilibrium analysis has a useful function to perform. But when it comes to the point where it misleads some of our leading thinkers into believing that the situation which it describes has direct relevance to the solution of practical problems, it is high time that we remember that it does not deal with the social process at all and that it is no more than a useful preliminary to the study of the main problem.


It is no exaggeration to say that if we had had to rely on conscious central planning for the growth of our industrial system, it would never have reached the degree of differentiation, complexity, and flexibility it has attained. Compared with this method of solving the economic problem by means of decentralization plus automatic coordination, the more obvious method of central direction is incredibly clumsy, primitive, and limited in scope.

Hayek, The Road to Serfdom, 1944
Irving Fisher was a Yale mathematical economist who contributed to the quantity theory of money, capital theory, interest rate theory, and index number theory. He promoted the distinction between real and nominal interest rates, and developed the concept of money illusion. His writings include Mathematical Investigations in the Theory of Value and Prices (1892), The Making of Index Numbers (1922), and The Theory of Interest (1920). He was president of the AEA in 1918.

It was doubtless in view of this strong feeling on both sides that the Economic Association when formed was strictly limited as to its functions. As our constitution says, its object is: “The encouragement of perfect freedom of economic discussion. The Association as such will take no partisan attitude, nor will it commit its members to any position on practical economic questions.”


It is but natural that the heretical views contained in my book, “The Nature of Capital and Income”, should have aroused criticism, but I confess I have been surprised at the manner in which this criticism has been distributed. Many of the views expressed to which resistance was expected have been accepted, while some of those which seemed beyond debate have been among the first to be questioned. The most striking instance of the latter is found in the case of the thesis that an increase in the value of capital is not a part of income. This has been a cherished heresy of mine since it was first stated in 1897.


When we say “the prices of goods are determined by supply and demand” we almost always ignore money. We only think of the supply and demand of goods. But that is only half of the story. Prices of goods are determined by the supply and demand not only of goods, but by the supply and demand of gold in terms of which, through money, all prices are expressed.


Interest is not a part, but the whole, of income.

Fisher, The Theory of Interest: As Determined by the Impatience to Spend Income and Opportunity to Invest It, 1930

The old and apparently still persistent notion of “the” business cycle, as a single, simple, self generating cycle (analogous to that of a pendulum swinging under influence of the single force of gravity) and as actually realized historically in regularly recurring crises, is a myth. Instead of one force there are many forces.

Joseph Schumpeter was a Harvard economist whose work emphasized the role of entrepreneurship, business cycles, and economic development. Originally at the University of Bonn, he was one of many émigré economists who strengthened and fundamentally changed the American economics profession. His writings include The Theory of Economic Development (1934), Capitalism, Socialism and Democracy (1942) and History of Economic Analysis, (published posthumously in 1954, edited by Elisabeth Boody Schumpeter). He was president of the AEA in 1948.

Economic development is so far simply the object of economic history, which in turn is merely a part of universal history, only separated from the rest for purposes of exposition. Because of this fundamental dependence of the economic aspect of things on everything else, it is not possible to explain economic change by previous economic conditions alone. For the economic state of a people does not emerge simply from the preceding economic conditions, but only from the preceding total situation.

Schumpeter, The Theory of Economic Development, 1934

This process of Creative Destruction is the essential fact about capitalism. It is what capitalism consists in and what every capitalist concern has got to live in.

Schumpeter, Capitalism, Socialism and Democracy, 1942

If capitalist evolution—“progress”—either ceases or becomes completely automatic, the economic basis of the industrial bourgeoisie will be reduced eventually to wages such as are paid for current administrative work excepting remnants of quasi-rents and monopolized gains that may be expected to linger on for some time. Since capitalist enterprise, by its very achievements, tends to automatize progress, we conclude that it tends to make itself superfluous—to break to pieces under the pressure of its own success.

Schumpeter, Capitalism, Socialism and Democracy, 1942

The true pacemakers of socialism were not the intellectuals or agitators who preached it but the Vanderbilts, Carnegies and Rockefellers. This result may not in every respect be to the taste of Marxian socialists, still less to the taste of socialists of a more popular (Marx would have said, vulgar) description. But so far as prognosis goes, it does not differ from theirs.

Schumpeter, Capitalism, Socialism and Democracy, 1942

As anyone familiar with the history of economic thought will immediately recognize, practically all the economists of the nineteenth century and many of the twentieth have believed uncritically that all that is needed to explain a given historical development is to indicate conditioning or causal factors, such as an increase in population or the supply of capital. But this is sufficient only in the rarest of cases.

David Ricardo systematized classical economics and demonstrated key arguments with abstract models. He became interested in economics after reading The Wealth of Nations at age 27. He was a stockbroker, a member of the British Parliament, and an avid opponent of protectionism. His fundamental contribution to economics is the theory of comparative advantage, which he described in On the Principles of Political Economy and Taxation (1817). Ricardo also developed the concept of economic rent.

Neither a state nor a bank ever have had unrestricted power of issuing paper money without abusing that power.


When commodities varied in relative value, it would be desirable to have the means of ascertaining which of them fell and which rose in real value, and this could be effected only by comparing them one after another with some invariable standard measure of value, which should itself be subject to none of the fluctuations to which other commodities are exposed. Of such a measure it is impossible to be possessed . . . .


Under a system of perfectly free commerce, each country naturally devotes its capital and labour to such employments as are most beneficial to each. This pursuit of individual advantage is admirably connected with the universal good of the whole. By stimulating industry, by rewarding ingenuity, and by using most efficaciously the peculiar powers bestowed by nature, it distributes labour most effectively and most economically; while by increasing the general mass of productions, it diffuses general benefit, and binds together by one common tie of interest and intercourse, the universal society of nations throughout the civilised world.


I sometimes think that if I were to write the chapter on value again which is in my book, I should acknowledge that the relative value of commodities was regulated by two causes instead of by one, namely, by the relative quantity of labour necessary to produce the commodities in question, and by the rate of profit for the time that the capital remained dormant, and until the commodities were brought to market.

John Stuart Mill was a British economist who addressed the limits of the power that can be legitimately exercised by society over individuals in his treatise On Liberty (1859). He argued that individuals should retain liberty unless their actions cause negative externalities. His Principles of Political Economy (1848) was the standard text in economics at Oxford until 1919, when it was replaced by Marshall's Principles. While a member of the British Parliament from 1865 to 1868, Mill was the first MP to call for giving women the right to vote.

The same reasons that make it no longer necessary that the poor should depend on the rich, make it equally unnecessary that women should depend on men; and the least which justice requires is that law and custom should not enforce dependence (when the correlative protection has become superfluous) by ordaining that a woman, who does not happen to have provision by inheritance, shall have scarcely any means open to her of gaining a livelihood, except as a wife and mother.

Mill, Principles of Political Economy, 1848

It is only in the backward countries of the world that increased production is still an important object: in those most advanced, what is economically needed is a better distribution.

Mill, Principles of Political Economy, 1848

Even in the best state which society has yet reached, it is lamentable to think how great a proportion of all the efforts and talents in the world are employed in merely neutralizing one another. It is the proper end of government to reduce this wretched waste to the smallest possible amount, by taking such measures as shall cause the energies now spent by mankind in injuring one another, or in protecting themselves against injury, to be turned to the legitimate employment of the human faculties, that of compelling the powers of nature to be more and more subservient to physical and moral good.

Mill, Principles of Political Economy, 1848

Laissez-faire, in short, should be the general practice: every departure from it, unless required by some great good, is a certain evil.

Mill, Principles of Political Economy, 1848

If, therefore, the choice were to be made between Communism with all its chances, and the present state of society with all its sufferings and injustices ... if this or Communism were the alternative, all the difficulties, great or small, of Communism would be but as dust in the balance.

Mill, Principles of Political Economy, 1848
Adam Smith was a Scottish moral philosopher who explained how the division of labor, people’s proclivity to trade, and competitive market structures can lead to economic prosperity. Important writings include The Theory of Moral Sentiments (1759), in which he describes “an invisible hand,” and An Inquiry into the Nature and Causes of the Wealth of Nations (1776), in which the invisible hand of the market guides people following their self-interest to serve society’s broader interests.

The man of system... is apt to be very wise in his own conceit, and is often so enamoured with the supposed beauty of his own ideal plan of government, that he cannot suffer the smallest deviation from any part of it. He goes on to establish it completely and in all its parts, without any regard either to the great interests or to the strong prejudices which may oppose it: he seems to imagine that he can arrange the different members of a great society with as much ease as the hand arranges the different pieces upon a chess-board; he does not consider that the pieces upon the chess-board have no other principle of motion besides that which the hand impresses upon them; but that, in the great chess-board of human society, every single piece has a principle of motion of its own, altogether different from that which the legislature might choose to impress upon it. If those two principles coincide and act in the same direction, the game of human society will go on easily and harmoniously, and is very likely to be happy and successful. If they are opposite or different, the game will go on miserably, and the society must be at all times in the highest degree of disorder:

Smith, *The Theory of Moral Sentiments*, 1759

Every individual... generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good. It is an affectation, indeed, not very common among merchants, and very few words need be employed in dissuading them from it.

Smith, *The Wealth of Nations*, 1776

The greatest improvement in the productive powers of labour, and the greater part of the skill, dexterity and judgement with which it is any where directed, or applied, seem to have been the effects of the division of labour.

Smith, *The Wealth of Nations*, 1776

The difference between the most dissimilar characters, between a philosopher and a common street porter, for example, seems to arise not so much from nature, as from habit, custom, and education.

Smith, *The Wealth of Nations*, 1776