

Laissez-Faire Economics

Many thinkers and economists tried to understand the staggering changes taking place in the early Industrial Age. As heirs to the Enlightenment, these thinkers looked for natural laws to explain the world of business and economics. Their ideas would influence governments down to the present. Among the most influential schools of thought were laissez-faire economics, utilitarianism, and socialism.

Adam Smith and Laissez-Faire Economics During the Enlightenment, thinkers looked for natural laws that governed the world of business and economics. Physiocrats argued that natural laws should be allowed to operate without interference. As part of this philosophy, they believed that government should not interfere in the free operation of the economy. In the early 1800s, middle-class business leaders embraced this laissez-faire, or "hands-off," approach.

The main proponent of laissez-faire economics was Adam Smith, author of the bestseller *The Wealth of Nations*. Smith asserted that a **free market**, or unregulated exchange of goods and services, would come to help everyone, not just the rich. The free market, Smith said, would produce more goods at lower prices, making them affordable to everyone. A growing economy would also encourage capitalists to reinvest profits in new ventures.

As the Industrial Revolution spread, later supporters of this free-enterprise capitalism pointed to the

successes of the early Industrial Revolution, in which government had played a limited role. Governments had taken steps to create a favorable atmosphere for business, such as Britain's laws to outlaw the export of inventions or the tariffs passed by the United States in 1789 to protect American industry, but played little role in the day-to-day operation of industry.

Malthus on Population Growth Like Smith, **Thomas Malthus** was a laissez-faire thinker whose writings influenced economic ideas for generations. In his 1798 book *An Essay on the Principle of Population*, he grimly predicted that poverty was unavoidable because the population was increasing faster than the food supply.

Malthus wrote: "The power of population is [far] greater than the power of the Earth to produce subsistence for man." He thought that the only checks on population growth were nature's "natural" methods of war, disease, and famine. As long as population kept increasing, he went on, the poor would suffer. He thus urged families to have fewer children and discouraged charitable handouts and vaccinations.

During the early 1800s, with industrial workers living and working in harsh conditions, many people accepted Malthus's bleak view. His view was proved wrong, however. Although the population boom did continue, the food supply grew even faster.

As the century progressed, living conditions in the Western world slowly improved, and people eventually did begin to have fewer children. By the 1900s, population growth was no longer a problem in the West, but it did continue to afflict many nations elsewhere.

Ricardo and the "Iron Law of Wages" Another influential British laissez-faire economist, David Ricardo, dedicated himself to economic studies after reading Smith's *The Wealth of Nations*. Like Malthus, Ricardo claimed that the poor had too many children and had little chance to escape poverty. In his "Iron Law of Wages," Ricardo noted that when wages were high, families had more children. But more children increased the supply of labor, which led to lower wages and higher unemployment. Because of such gloomy predictions, economics became known as the "dismal science."

Neither Malthus nor Ricardo was a cruel man. Still, both opposed any government help for the poor. In their view, the best cure for poverty was not government relief but the unrestricted "laws of the free market." They felt that individuals should be left to improve their



» Laissez-faire thinker Thomas Malthus believed that the increasing population put too great a strain on the food supply. He suggested smaller family sizes as a solution to ending poverty.

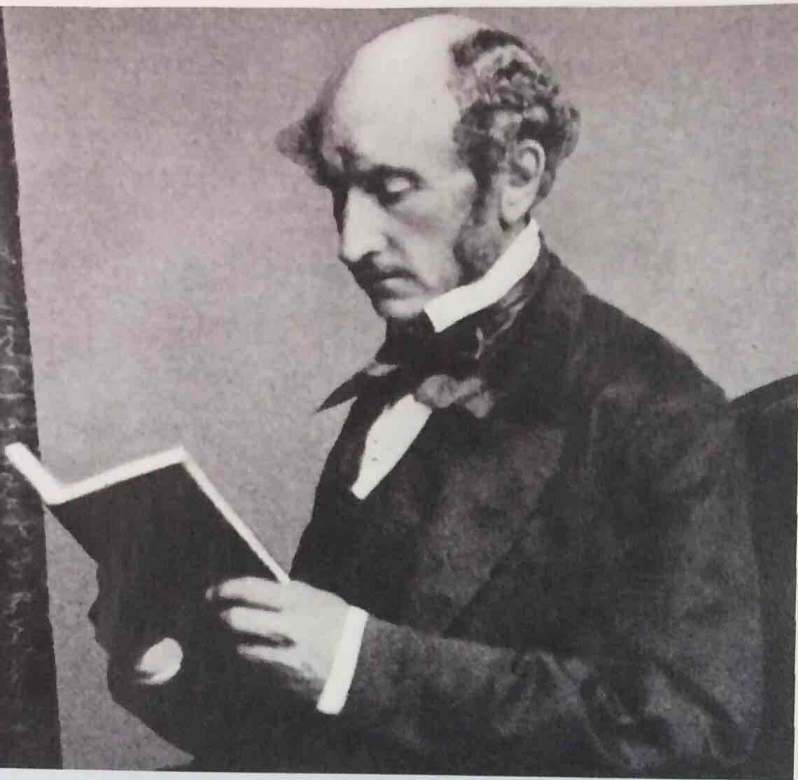
lot through thrift, hard work, and limiting the size of their families.

? IDENTIFY CAUSE AND EFFECT How did the ideas that Adam Smith discussed in *The Wealth of Nations* support the free enterprise system?

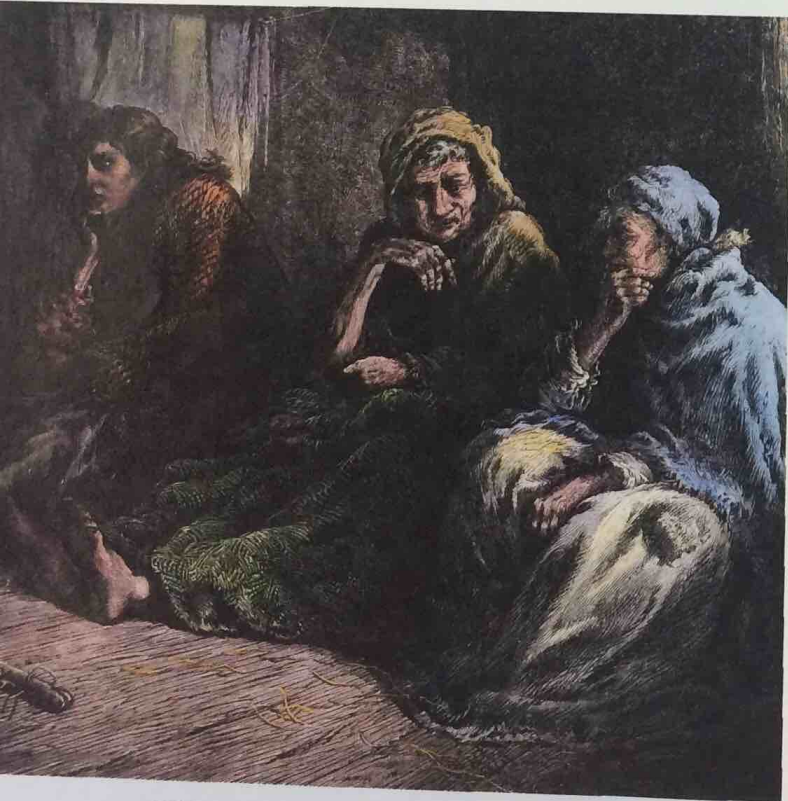
Utilitarians Support Limited Government

Other thinkers sought to modify laissez-faire doctrines to justify some government intervention. By 1800, British philosopher and economist **Jeremy Bentham** was advocating **utilitarianism**, or the idea that the goal of society should be "the greatest happiness for the greatest number" of its citizens. To Bentham, all laws or actions should be judged by their "utility." In other words, did they provide more pleasure or happiness than pain? Bentham strongly supported individual freedom, which he believed guaranteed happiness. Still, he saw the need for government to become involved under certain circumstances.

Bentham's ideas influenced the British philosopher and economist John Stuart Mill. Although he believed strongly in individual freedom, Mill wanted the



>> Philosopher and economist John Stuart Mill supported extending suffrage. Mill believed that political power through voting could lead to necessary reforms.



>> Widespread poverty, as shown here, motivated socialists to seek a more equitable economic system.

government to step in to improve the hard lives of the working class.

"The only purpose for which power can be rightfully exercised over any member of a civilized community, against his will," Mill wrote, "is to prevent harm to others." Therefore, while middle-class business and factory owners were entitled to increase their own happiness, the government should prevent them from doing so in a manner that would harm workers.

Mill further called for giving the vote to workers and women. These groups could then use their political power to win reforms. Most middle-class people rejected Mill's ideas. Only in the later 1800s were his views slowly accepted. Today's democratic governments, however, have absorbed many ideas from Mill and the other utilitarians.

? CHECK UNDERSTANDING What did John Stuart Mill see as the proper role of government?

Socialist Thought Emerges

While the champions of laissez-faire economics favored the free market and individual rights, other thinkers focused on social inequality and what they claimed were the evils of industrial capitalism. They argued that industrialization had created an unjust gulf between rich and poor.

The Socialist Point of View To end poverty and injustice, some thinkers offered a radical solution—socialism. Under **socialism**, the people as a whole rather than private individuals would own and operate the **means of production**—the farms, factories, railways, and other large businesses that produced and distributed goods. In practice, when socialist governments gained power in the 1900s, they tended to regulate the production and distribution of goods, which often proved inefficient.

Socialism grew out of the Enlightenment faith in progress and human nature and its concern for social justice. Socialist thinkers developed a number of different ideas about how to achieve their goals. The early experiments in socialism differed greatly from what later socialist governments would do.

Owen and Utopian Socialism A number of early socialists established communities in which all work was shared and all property was owned in common. When there was no difference between rich and poor, they said, fighting between people would disappear. These early socialists were called Utopians. To critics, the name implied that they were impractical dreamers.

One of these social reformers was **Robert Owen**. Owen himself was an industrial success story. He started life as a poor Welsh boy and became a successful mill owner. Unlike most industrialists at the time, Owen refused to use child labor. He campaigned vigorously for laws that limited child labor and encouraged the organization of labor unions.

Like other Utopians, Owen believed there was a way he could change society for the better. To prove his point, he set up a model community around a mill in New Lanark, Scotland, to put his own ideas into practice. At his factory in New Lanark, he built homes for workers, opened a school for children, and generally treated employees well. He wanted to show that an employer could offer decent living and working conditions and still run a profitable business.

? IDENTIFY What were the characteristic beliefs of early socialists?

Marx and the Origins of Communism

In the 1840s, **Karl Marx**, a German philosopher, condemned the ideas of the Utopians as unrealistic idealism. He formulated a new theory, “scientific socialism,” which he claimed was based on a scientific study of history. He teamed up with another German socialist, Friedrich Engels, whose father owned a textile factory in England.


Marxist Theory Marx and Engels wrote a pamphlet, *The Communist Manifesto*, which they published in 1848. “A spectre [ghost] is haunting Europe,” it began, “the spectre of communism.” According to Marx, **communism** would bring a classless society in which the means of production would be owned in common for the good of all.

In fact, wherever communism came to be practiced in the 1900s, it brought a system of government in which the state led by a small elite controlled all economic and political life and exercised authoritarian control over the people.

In *The Communist Manifesto*, Marx theorized that economics was the driving force in history. He argued that there was “the history of class struggles” between the “haves” and the “have-nots.” The “haves” had always owned the means of production and thus controlled society and all its wealth. In industrialized Europe, Marx said, the “haves” were the bourgeoisie. The “have-nots” were the **proletariat**, or working class.



>> This well-known Marxist poster proclaims in German, “Workers of all countries, unite!” **Determine Point of View** Why should workers unite, according to Marx?

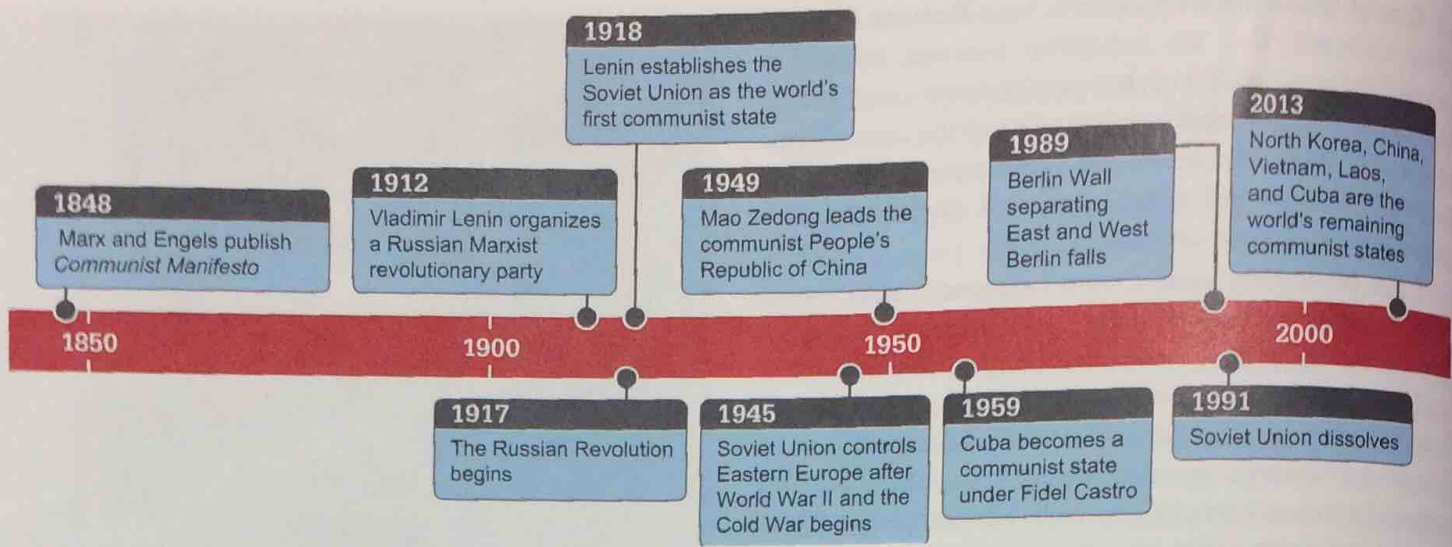
 **Interactive Chart**

According to Marx, the modern class struggle pitted the bourgeoisie against the proletariat. In the end, he predicted, the proletariat would be triumphant. Workers would then take control of the means of production and set up a classless, communist society. In such a society, the struggles of the past would end because wealth and power would be shared equally.

Marx despised capitalism. He believed it created prosperity for only a few and poverty for many. He called for an international struggle to bring about its downfall. “Workers of all countries,” he urged, “unite!”

Marxism Finds Support At first, Marxist ideas had little impact. In time, however, they would gain supporters around the world. In western Europe, communist political parties emerged and promoted the goals of violent revolution to achieve a classless society. Marx’s ideas would never be practiced exactly as he imagined. Even so, Karl Marx remains a key historic figure, not only in his lifetime but in the century to come.

In the 1860s, German socialists adapted Marx’s beliefs to form **social democracy**, a political ideology in which there is a gradual transition from capitalism to socialism instead of a sudden violent overthrow of the system. By the late 1800s, a rift formed between strict



>> Since Marx's lifetime, communism has spread globally and then declined. **Analyze Charts** How much time elapsed between the Soviet Union's gaining control of Eastern Europe and the end of the Soviet Union?

Marxists, who believed in revolution to end capitalism, and social democrats, who believed in the possibility of peaceful reform.

In the late 1800s, Russian socialists embraced Marxism and formed a communist party to bring about revolution. In 1917, the Russian Revolution set up a communist government there that lasted until 1991. During the 1900s, revolutionaries in countries from China to Cuba adapted Marxist ideas to their own situations and needs. Independence leaders in Asia, Latin America, and Africa often experimented with Marxist ideas.

Marxism Loses Its Appeal Marx claimed that his ideas were based on scientific laws. However, many of his ideas turned out to be wrong. He predicted that the misery of the proletariat would touch off a world revolution. Instead, by 1900, the standard of living of the working class improved in industrially developed countries. He also predicted that workers would unite across national borders to wage class warfare.

Instead, people continued to feel stronger ties to their own countries than to any international workers' movement. Finally, by the late 1900s, the few nations that had experimented with communism were moving

away from government control of the economy and were adding elements of free-market capitalism.

? CHECK UNDERSTANDING What did Marx predict was the future of the proletariat?

ASSESSMENT

- 1. Summarize** How did the middle class live during the Industrial Revolution?
- 2. Describe** What was life like for working-class women during the Industrial Revolution?
- 3. Cite Evidence** What key social and economic changes did industrialization bring about, both for the better and for the worse? Explain your answer with evidence from the text.
- 4. Identify Main Ideas** What were the historical origins and characteristics of the free enterprise system?
- 5. Identify Patterns** How did the Industrial Revolution impact the development of modern economic systems? In your answer, identify the economic systems that arose during that period.