

# Economic Theories of the Industrial Revolution

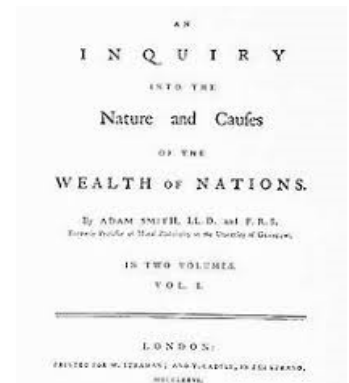
The Industrial Revolution radically changed society, improving the standard of living for some while resulting in often grim employment and living conditions for others, mostly the poor and working classes. As capitalism played an important role in the success and spread of industrialization, many economists and philosophers debated whether it helped or hurt society and what should be done about it. This debate led to a transition in political and economic theory. Three dominant economic and political philosophies developed during this period: **Capitalism**, **Socialism**, and **Communism**. The central arguments in the economic theory debate are about economic equality and the role that government plays.

## Capitalism



Adam Smith, a Scottish professor, was one of the first to explain how **capitalism**, or a free enterprise system, worked. In his influential book, *The Wealth of Nations*, Smith also argued that wealth distribution could work most effectively without any government interference. He detailed how production could benefit from divisions of labor, in which workers specialized in particular steps of the production process. He also explained how the laws of supply and demand determined prices and production. Inefficient producers go out of business, while only those who make the best products sold at the best prices survive.

At the time of his book's publication, the Thirteen Colonies had declared their independence from Great Britain. Smith believed that British mercantilism, one reason for the Colonies' declaration, was a waste of resources and led to inefficient production. Smith argued that government involvement in the economy should be limited, a principle called **laissez-faire** (let it be) economics. This policy would encourage the most efficient operation of private and commercial businesses. If the government let people and business do as they pleased, they would act out of self-interest and maximize the economic well-being of society as a whole. Therefore, capitalism is opposed to government intervention in economics because a free market produces the best economic outcome for society.



In a capitalist society, people enjoy economic freedoms when determining what to buy, where to work, and what to make. People have the right to own property- such as personal possessions, homes, farms, factories, and businesses- and use that property as they see fit. Producers are free to make the same goods or promote the same services- this allows the consumer to choose which available goods they want to buy and what they want to pay for those services. During the Industrial Revolution, farm workers left the countryside for jobs in cities, where they were paid wages in exchange for their labor. In a capitalist society, citizens are permitted religious freedoms and social freedoms. In theory, since the government protects businesses from taxes and the people benefit from the availability of jobs and resources, there is no need to stage a revolution to protest the government's treatment of their citizens.

## Socialism

The changes caused by the Industrial Revolution brought about both social and political reforms, first in Great Britain and later in other parts of Europe. The misery of the working class and the injustices of the capitalist system disturbed the middle classes. Charles Fourier, a French social theorist, believed that society had the responsibility for the social welfare of the individual. His book, *The Social Destiny of Man; or, Theory of the Four Movements*, published in 1808, is often

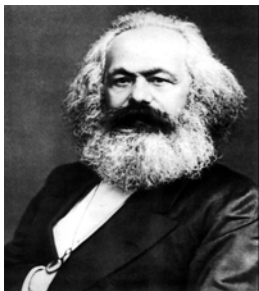


credited as the root beliefs of **socialism**. Fourier's concepts included the reconstruction of society into small communities that were self-contained and ran on the principle of cooperation. Each community would bear responsibility for the social welfare of each individual and redistribute wealth equally.

Fourier explained that, in a socialist economy, the means of production, such as money and other forms of capital, are owned by the state (the government) or public. While everyone works for wealth that is redistributed equally, the government provides for the people. Government protections stay in place to protect citizens, their religious and social freedoms, and their needs as opposed to big businesses. Services that the government provides can vary, such as government-run health care and comprehensive public education systems. It is a misconception that people do not pay for these services. They do pay for them through higher taxes. Socialist systems emphasize that individuals are rewarded based on the cooperative success of the community.

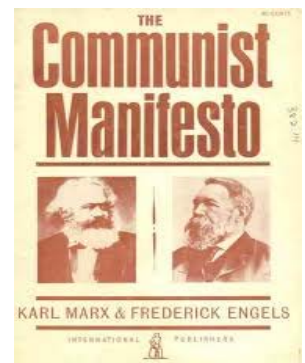
Fourier believed that capitalism created an excessive waste of resources, and that his economic theory could be applied to any government system, including monarchies (who were more likely to have unequal distribution of wealth). Ideally, power is achieved by working within democratic systems, not violent revolutions. Socialism advocates that capitalism can be defeated through the organization of mass political parties and the elections of socialist reformers to political positions. By recreating the state based on cooperation rather than competition through democracy, life could improve for all people in society, and not just the wealthiest.

## Communism



The Industrial Revolution flourished in England, where capitalism allowed producers to put their resources where they had the greatest benefit for the economy. However, as the entrepreneur class grew richer and more powerful, the worker suffered bleak working conditions and low wages. Two prominent critics of capitalism, Karl Marx and Friedrich Engels, published *The Communist Manifesto* in 1848. Marx would continue to critique capitalist societies, and his ideas became the basis of **Communism**.

Marx believed that society's oppressors and oppressed engaged in a constant struggle throughout history opposed to one another. The oppressors- who own the means of production like factories, raw materials, and money- controlled the government and society. The oppressed owned nothing and depended on the oppressors for means of survival, like wages. Workers created value through their labor, but business owners used their power to take advantage of workers by paying them only what they need to survive, keeping the "surplus value" for themselves as profits. Over time, business owners would get richer while their workers became poorer. Marx predicted that the conditions of the workers, called the **proletariat**, would get so bad they would eventually rise up and overthrow the capitalist business owners in a violent revolution.



After the overthrow of the bourgeoisie, Marx predicted that workers would establish an equal society and live in perfect harmony. In a pure Communist society, there would be no social classes or private property, as everything would be collectively owned by all. Production would exist in cooperation, not competition, allowing for everyone's needs to be met. Marx believed that religion only served to exaggerate divisions, especially amongst the working class, who are given false hope of improving their status by the religious ruling classes. Eliminating the influence of religion, therefore, would achieve a truly classless society.