

The Industrial Revolution had an impact on philosophy and politics. Capitalism stood at the root of the ideas that supported industrialization. Under capitalism, people should own businesses and property instead of the government owning businesses and property. Also, capitalists believed that the government should play as small a role in the economy as possible and shouldn't pass laws that put too many regulations on businesses.


Meanwhile, some people looked for new ideas about how to better run the economy and the government. They saw the harsh working and living conditions under which many people lived, and thought there must be a better way. At this time in history, several major economic philosophies emerged. Many of them are still debated today.

Capitalism

Free Market
One where goods and services are sold with as little government interference as possible which leads to lowest prices

Capitalism
Encouraged investment and innovation
Had positive and negative effects on society

Adam Smith
*Wrote *The Wealth of Nations**

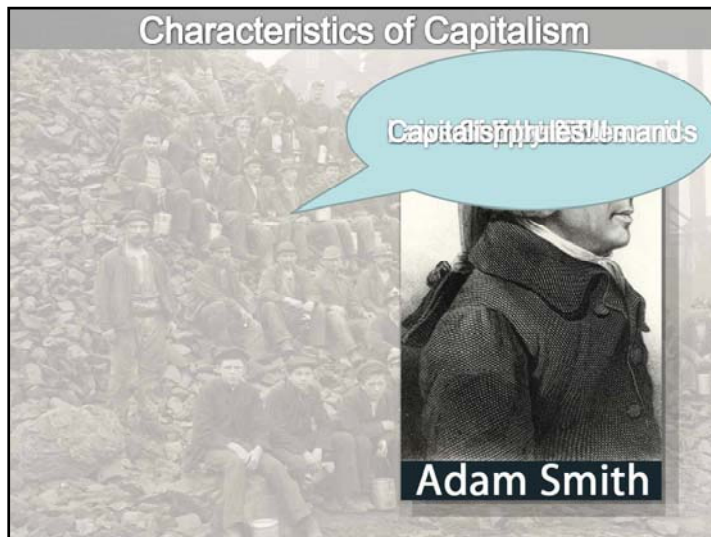


Adam Smith

The image is a graphic titled 'Capitalism'. It features a background illustration of a busy market scene with many people. On the left, there is a dark rounded rectangle containing text about 'Free Market', 'Capitalism', and 'Adam Smith'. On the right, there is a profile portrait of Adam Smith in 18th-century attire, with his name 'Adam Smith' written in a white box below it.

Capitalism became the main economic theory in Europe in the early 1700s, after it replaced mercantilism. Capitalism is based on the belief that private property in combination with free markets results in goods being produced the most cheaply and efficiently. A free market is one where businesses and individuals can buy and sell products and services with as little interference from the government as possible. In a free market, the price of goods and services is no higher or lower than customers are willing to pay, and anyone can start a business manufacturing and selling goods or services.

Capitalism was the driving force behind the Industrial Revolution. It encouraged people to invest their money, to make more money, and for entrepreneurs to be more innovative. Capitalism had both positive and negative effects on society. Adam Smith, an Enlightenment thinker, wrote *The Wealth of Nations* in 1776 in which he laid out many of the main theories of capitalism.



Adam Smith believed that a nation's economy would produce far more wealth if it were not regulated by the government. He believed that excess tariffs, or taxes on imports and exports, high taxes, and government regulation of industry would hurt the economy. These ideas are the basis of “laissez-faire” economics, which in French means to “leave alone.” Smith thought that government should play a very limited role in a country's economy, leaving economic actions up to businesses, industries, and consumers. His philosophy was based on three key ideas or natural laws.

The first was the idea that people act in their own self-interest and not necessarily for the good of their neighbors. People know what they want, but they cannot possibly know what is important to someone else. If everyone pursues his or her own self-interest, then everyone has the best chance of satisfying them.

Second, Smith supported competition. He believed that since businessmen compete for profits and try to make more money than their competitors, they would come up with innovations that would lead to better products and services at lower prices.

Smith's last law was the law of supply and demand, which he believed would lead to the most productive economy. Supply and demand was the “invisible hand” that guided the economy. Supply is how much of a product is produced, while demand is how much people want the product. Smith believed that supply and demand would always balance out, ensuring that if people wanted something, there would always be businesses that made the item. The reverse was true -- if people stopped buying a certain product, than businesses would stop producing the item.

\Capitalism fueled the Industrial Revolution as entrepreneurs built factories that made cheaper products and made themselves and others rich. The middle class grew as some people earned more as managers in these industries and created other businesses. The standard of living increased for many since more goods were available at cheaper prices.

Organized Labor

Businesses wanted to keep their products cheap

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Lower wages for workers and dangerous work conditions

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Workers form labor unions to improve wages and conditions

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Some unions encouraged workers to strike

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HARPER'S WEEKLY
A JOURNAL OF CIVILIZATION
NEW YORK, SATURDAY, JULY 24, 1892
\$2 PER ANNUM IN ADVANCE

THE HOMOESTEAD STRIKE—(PART I) at 10 P.M. Strikers with a Permit to Pass, PENNSYLVANIA (See 20)

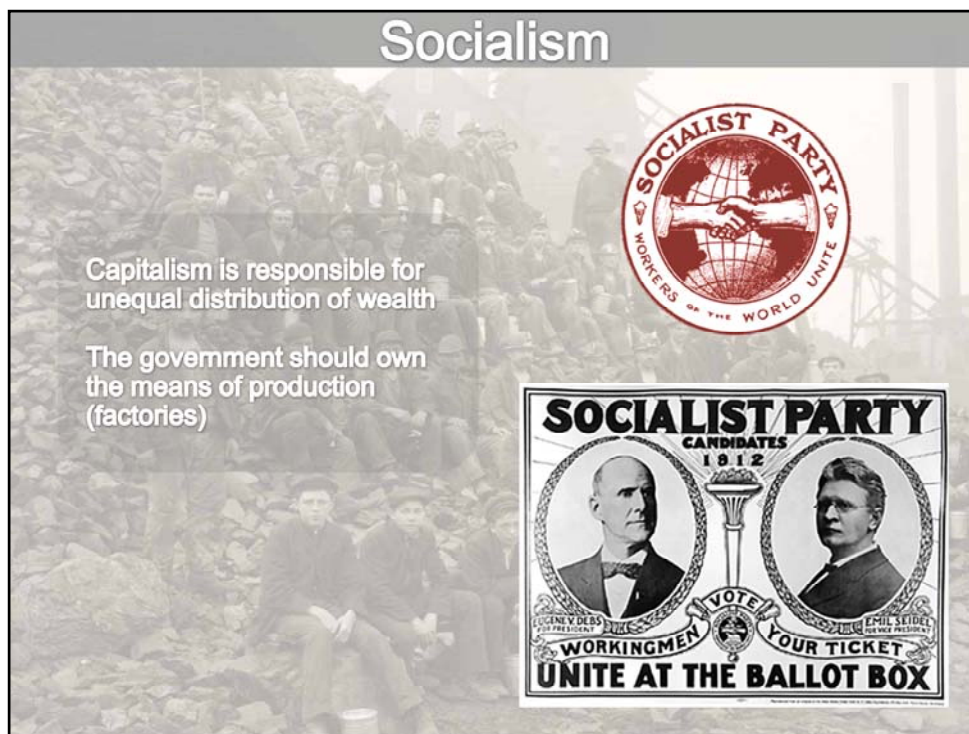
THE STRIKE HAS KEPT THE HOMOESTEAD STRIKE

Most business owners benefitted from the capitalist economy. Companies were free to make products that people wanted. Businesses tried to sell as many goods as possible by producing the best quality products at the lowest price. For those who could afford it, there more products to choose from than ever before. Profits from the sale of these goods went to the factory owners and the investors in these companies.

Capitalism, however, did not benefit everyone equally. In order to compete with other businesses and sell more products, companies tried to produce goods as cheaply as possible. Since many of the new machines in the factories were very expensive, businesses tried to cut expenses in other ways, often making employees work in dangerous conditions where safety was much less important than lowering costs. Another common way to lower costs was to keep wages low by using women and children, or by hiring new workers.

As workers tried to get higher wages and improve working conditions, they realized they had strength in numbers, and many formed labor unions. Unions tried to improve conditions in the factories through collective bargaining. Collective bargaining is the process in which a union negotiates on behalf of all of the workers that do a certain job at a factory. Often, management did not want the unions, since the company had an advantage by negotiating with the workers individually.

Sometimes unions encouraged workers to organize strikes, or work stoppages, in order to force businesses to improve working conditions or raise wages. Sometimes the strikes turned violent as in the Homestead Strike shown here. Unions also lobbied governments to improve working conditions by making laws that would affect all businesses, not just those that were unionized.

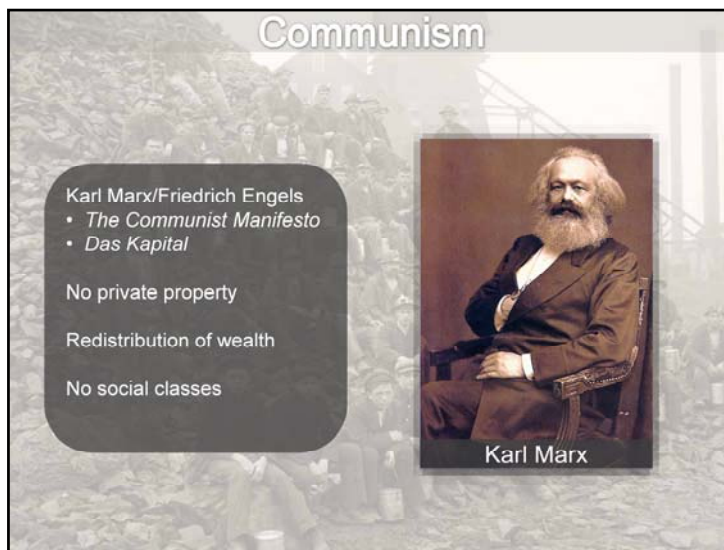


Because the business owners controlled the factories, and the majority of workers made low wages, there was an unequal distribution of wealth as factory owners and entrepreneurs became wealthy while many factory workers lived in poverty. This resulted in the development of new, radical theories about the causes of poverty and the best ways to fix it.

Factory workers were not the only ones who were shocked at the gap between the rich and poor and at the miserable conditions of the working class. Some people joined the workers as they tried to reform the government and the economy, in order to end the worst abuses of the Industrial Revolution. Some people even wanted to end capitalism, which they believed was responsible for the gap between the rich and poor.

Some reformers supported socialism, an economic theory that called for the government to own and operate certain industries for the good of society, not the profits of factory owners. The socialists' goal was to create an economy that was focused on people's needs, rather than profits. Socialist philosophers came up with ideas they thought would solve many of society's problems. Some early socialists built self-sufficient communities in which all work was shared and all property was owned by the community. These early socialist experiments were called utopias, after Thomas Moore's book *Utopia*, in which he describes the perfect world. Most of these communities, however, would not last and were very small in scale.

The socialists also created political parties and ran for the presidency of the United States. Some of these parties still exist today.



Communism is a more extreme theory of socialism. It was developed in the mid 1800s by the German writers Karl Marx and Friedrich Engels. These philosophers wanted to fix the problems that were caused by capitalism and industrialization.

Communists argued that socialism was only a transitional step on the path to full communism. Marx and Engels co-wrote *The Communist Manifesto* in 1848. This work explained the communist theory. They also wrote *Das Capital* in 1867 which was critical of capitalism. In *The Communist Manifesto*, Marx argued that modern human society has always been divided into “haves” and “have-nots.” The have-nots were the proletariat, or working class. Through back-breaking work, these people created all of the wealth that went to the “haves,” or the bourgeoisie. The bourgeoisie owned the factories and other industries. In return for their work, the working class received minimal wages and lived in poverty.

Marx believed that as long as the bourgeoisie owned the factories, the rich would get richer and the poor would get poorer. He theorized that, as workers became more and more oppressed, they would unite and start a working-class revolution, overthrowing the factory owners and taking control of the factories and other industries. In addition, Marx believed that workers would overthrow the rulers and establish a government based on the principles of communism. Under communism, there would be a “classless” society in which everyone was equal. All land and industry would be owned by the people through their government, and private property would no longer exist. Wealth would be redistributed equally among the people, and the state would be in charge of equally distributing wealth in the future.

Marx's ideas had little actual impact when they were first published; however, in the 20th century, several revolutionaries would establish communist governments. These governments had little economic success and were characterized by authoritarian leaders who restricted the freedoms of the people. These governments also never fully implemented many of Marx's main ideas.