

Aim #10: How Does the Industrial Revolution Change Economic Theory in Europe?



Mercantilism- Old Economic Theory

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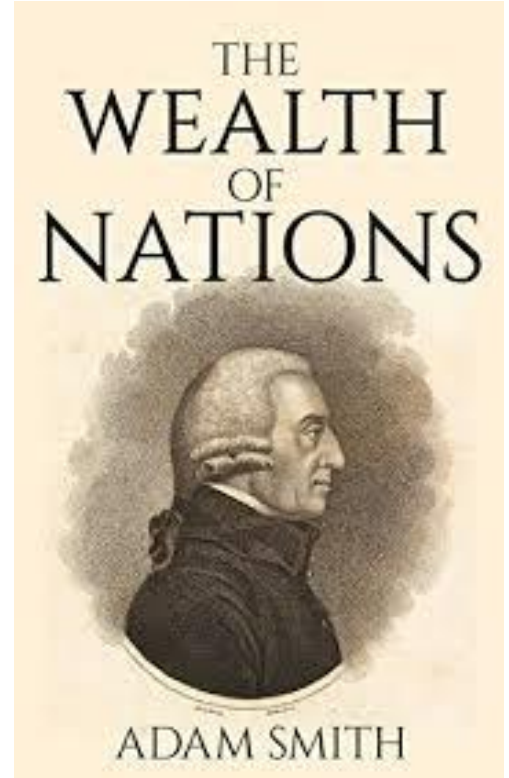
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A European View



Capitalism- New Economic Theory

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Capitalism



Supply and Demand



Self-Interest



Competition for Consumer Money



Producers are people who make things. **Consumers** are people who buy things. The amount of a good that a producer makes is called its **supply**, the amount that is available. How much consumers want something is called **demand**. The price of something is determined through the **law of supply & demand**. Producers try to sell their supply for the highest price possible, but this is limited by how much consumers demand it.

There is **self-interest** so producers and consumers only think about their selfish needs when making decisions.

There is **competition** where producers compete for consumer money by lowering their prices or introducing new products.



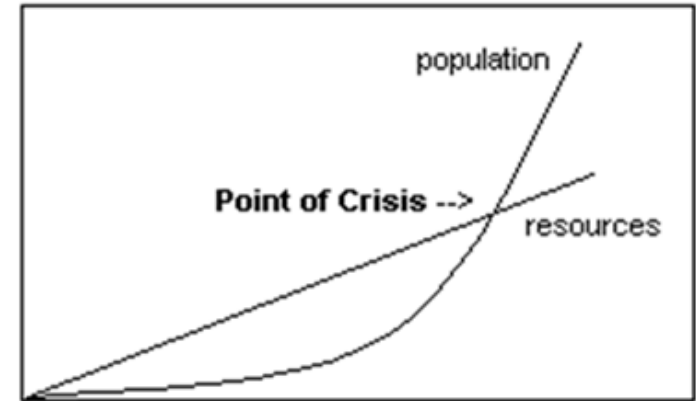
“It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages.”

—Adam Smith, *The Wealth of Nations*, 1776

Quick biographical note: Adam Smith lived and died in Scotland, which was part of the United Kingdom (England + Scotland).

Economists Attempt Reforms

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- **Thomas Malthus**

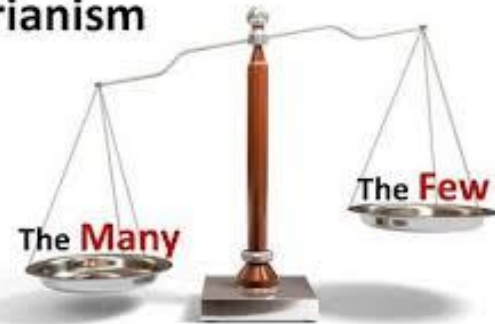


Malthus' Basic Theory

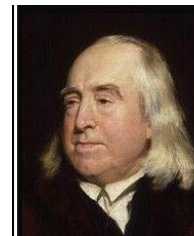
- **Jeremy Bentham**



Utilitarianism



- **John Stuart Mill**



It is the greatest good to the greatest number of people which is the measure of right and wrong.

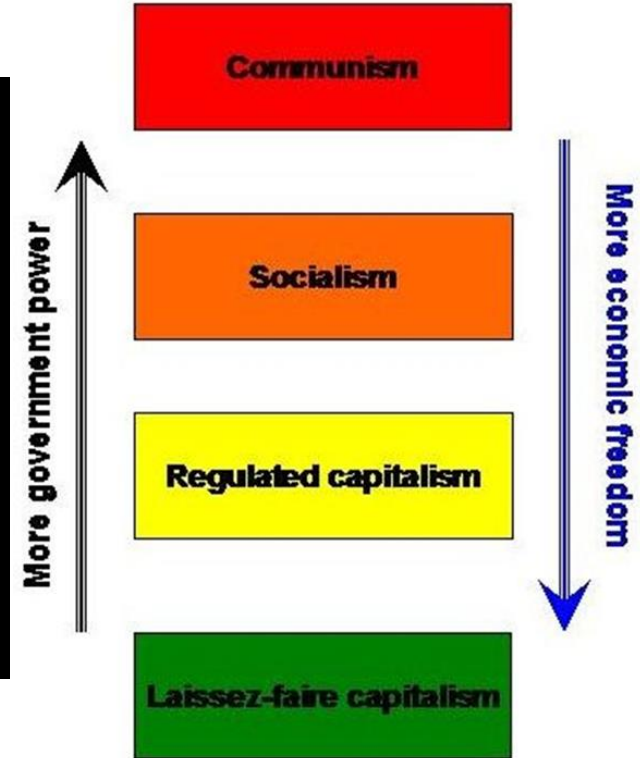
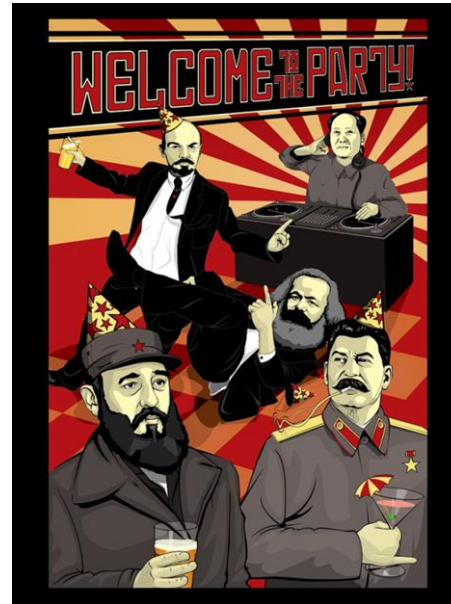
(Jeremy Bentham)

Communism

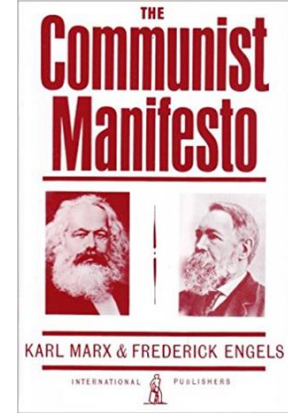
- Capitalism:

- Socialism:

- Communism:



Communism

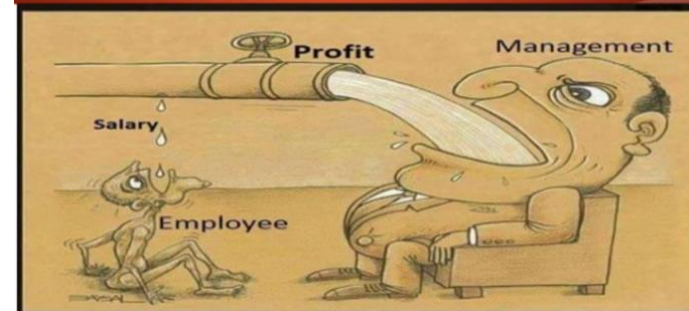


Capitalism
Competition

Socialism
Cooperation



Bourgeois vs. Proletariat/Employer vs. Employee



4 Elements of Communism

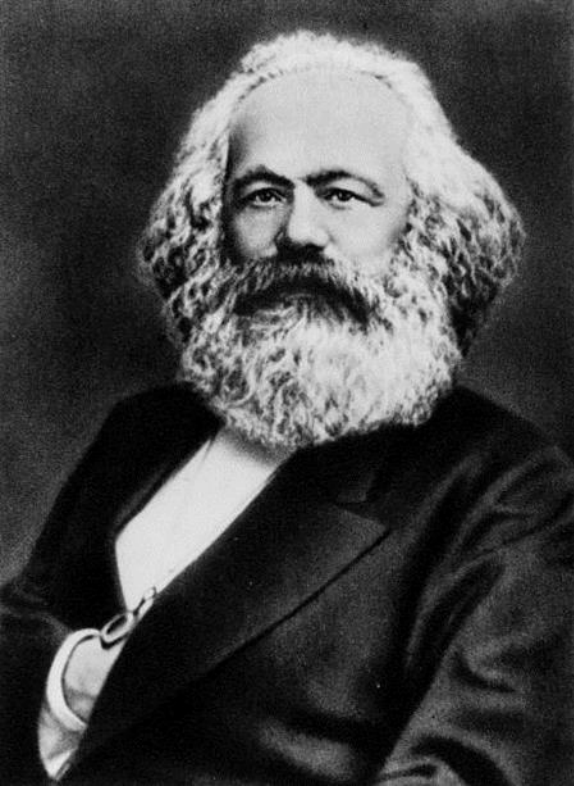
1. Class Struggle: Bourgeoisie Vs. Proletariat
2. Exploitation of the Worker
3. Communist Revolution
4. Dictatorship of the Proletariat



“The proletarians [workers] have nothing to lose but their chains. They have a world to win. WORKING MEN OF ALL COUNTRIES, UNITE!”

Karl Marx, *Communist Manifesto* (1848)

Communism



German philosopher **Karl Marx** condemned the ideas of capitalism as unfair and the ideas of some reformers as impossible to achieve.

“Nobody troubles about the poor as they struggle helplessly in the whirlpool of modern industrial life. The working man may be lucky enough to find employment, if by his labor he can enrich some member of the middle classes. But his wages are so low that they hardly keep body and soul together. If he cannot find work, he can steal, unless he is afraid of the police; or he can go hungry and then the police will see to it that he will die of hunger in such a way as not to disturb the equanimity of the middle classes.”

- Friedrich Engels (Marx’s philosophical friend)

How do both NEW economic theories reflect what was happening at the time?

Historical Context

CAPITALISM develops as an idea a result of the British government's hands off approach to the developing industrial economy in England in the mid- to late-1700s.

COMMUNISM develops as an idea as a REACTION to the poor treatment of the industrial workers — their wages, their living and working conditions, their general health — across Europe, in the mid- to late-1800s.

According to Adam Smith's *The Wealth of Nations* (1776), how does a nation build wealth?

Task 1: According to Adam Smith, how does the **division of labor** create more **productivity**?

Task 2: According to Adam Smith, how does **division of labor** and **the invisible hand** build a nation's wealth?

An Inquiry into the Nature and Causes of the Wealth of Nations (1776)

Adam Smith (1723-1790) was a Scottish economist and philosopher. In 1776 during the Scottish Enlightenment and the Scottish Agricultural Revolution, Adam Smith wrote *An Inquiry into the Nature and Causes of the Wealth of Nations*. To write *An Inquiry into the Nature and Causes of the Wealth of Nations* he used seventeen years of notes, observations and conversations with economists during the beginnings of the Industrial Revolution.

- *An Inquiry into the Nature and Causes of the Wealth of Nations* shares Adam Smith's **ideas about what makes a nation wealthy.**
- Adam Smith introduces three concepts: **productivity, division of labor, and the invisible hand.**
- The **economic system** described in *An Inquiry into the Nature and Causes of the Wealth of Nations* is now known as **capitalism.**

→Directions: Using the [WILD GUESS Microroutine](#), with your partner, predict the meaning of Adam Smith's three key ideas.

Productivity	Division of Labor	Invisible Hand

Productivity

→ Directions: Explore each of the documents below. Annotate and jot notes to help build a definition of productivity.

Document 1



Watch this video, [What is productivity?](#) (0:00-2:08).



Watch this video, [What is productivity?](#) (0:00-2:08).

Document 2

$$\begin{aligned} \text{Labor productivity} &= \frac{\text{output}}{\text{labor input}} \\ &= \frac{500 \text{ birdhouses}}{100 \text{ hours}} \\ &= 5 \text{ birdhouses / hour} \end{aligned}$$

First year:
 $\frac{300 \text{ birdhouses}}{100 \text{ hours}} = 3 \text{ units per hour}$

Second year:
 $\frac{500 \text{ birdhouses}}{100 \text{ hours}} = 5 \text{ units per hour}$

Third year:
 $\frac{800 \text{ birdhouses}}{100 \text{ hours}} = 8 \text{ units per hour}$

Year	Output (units)	Hours worked (hours)	Labor productivity (units/hour)
1	300	100	3
2	500	100	5
3	800	100	8

Source: Bureau of Labor Statistics. [Productivity 101](#). Accessed 17 November 2019

Document 3

An Inquiry into the Nature and Causes of the Wealth of Nations (1776)

There is one sort of labor which adds to the value [...and] there is another which has no such effect [...] The labor of a manufacturer adds generally to the value of the materials which he works upon and [that] of his master's profit [...]

Adam Smith. [An Inquiry into the Nature and Causes of the Wealth of Nations](#). 1776

What is productivity?

→ Directions: Using the LINC strategy, complete the chart below.

Definition	Reminder Words	Reminder Story	Reminder Image

Division of Labor

→ Directions: Explore each of the documents below. Annotate and jot notes to help build a definition of division of labor.

Document 1



Watch this video, [Division of Labor: Burgers and Ships](#) (0:30-1:35).



Watch this video, [Division of Labor: Burgers and Ships](#) (0:30-1:35).

Document 2

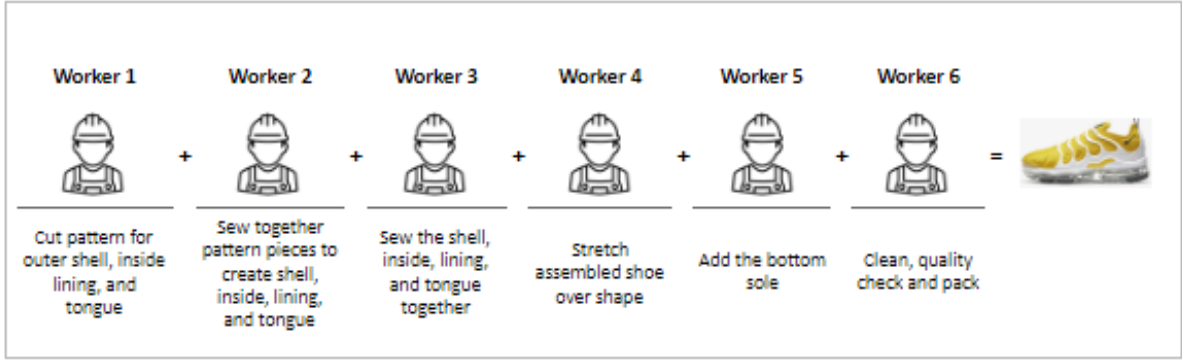


Image Source: [Nike](#); Text Adapted from: Sneaker Factory. [How Does a Factory Make Shoes?](#) Accessed on 20 November 2019

Document 3

An Inquiry into the Nature and Causes of the Wealth of Nations (1776)

One man draws out the wire, another straightens it, a third cuts it, a fourth points it, a fifth grinds it at the top for receiving the head [...] the important business of making a pin is [...] divided into about eighteen [...] operations [...] Those ten persons, therefore, could make among them upwards of forty-eight thousand pins in a day. [...] But if they had all [made pins] independently [...] they certainly could not each of them have made twenty, perhaps not one pin in a day.

Adam Smith. [An Inquiry into the Nature and Causes of the Wealth of Nations](#). 1776

What is division of labor?

→ Directions: Using the LINC strategy, complete the chart below.

Definition	Reminder Words	Reminder Story	Reminder Image

The Invisible Hand

Document 1



Watch this video, [The Invisible Hand](#) (0:00-1:20).



Watch this video, [The Invisible Hand](#) (0:00-1:20).

Document 2

The invisible hand is a metaphor that explains how Adam Smith saw the economy working. According to Adam Smith, there are unseen, or invisible forces that move the economy. These unseen forces allow people to act in their best self-interest and allow people to produce and consume what they want. According to Adam Smith, when everyone acts in their best self-interest without interference, everyone benefits.

The invisible hand is part of the of laissez-faire, meaning "let do/let go" approach to the economy. Laissez-faire is a French theory which argues that the market will find its balance and that the government should not intervene. Like Adam Smith's idea of the invisible hand, in a laissez-faire society, businesses operate without the government telling them what to do.

Adapted from: Christina Majaski (Investopedia). [Invisible Hand Definition](#). Accessed on 20 November 2019

Document 3

An Inquiry into the Nature and Causes of the Wealth of Nations (1776)

and he is in this [...] led by an invisible hand to promote an end which was no part of his intention [...] By pursuing his own interest, he frequently promotes that of the society.

[...]every individual [...] can [...] judge [what to do with his business] much better than any statesman or lawgiver can do for him.

Source: Adam Smith. [An Inquiry into the Nature and Causes of the Wealth of Nations](#). 1776

What is the invisible hand?

→ Directions: Using the LINC strategy, complete the chart below.

Definition	Reminder Words	Reminder Story	Reminder Image

In Karl Marx and Friedrich Engels' *The Communist Manifesto* (1848), what points of view are expressed about the impacts of capitalism and the Industrial Revolution?

Objective:

- **Describe** the historical context that led to the writing of *The Communist Manifesto* (1848).
- **Source** Karl Marx and Friedrich Engels' *The Communist Manifesto* for point of view, purpose, and audience.

The Industrial Revolution and the Birth of New Ideologies

The Industrial Revolution was a time of great social, economic, and political change. These changes prompted different people in society to develop points of view about how their society was organized and how it should be organized. A **point of view** is an opinion or belief held by a person. When many people with the same point of view get together, they might form an ideology. An **ideology** is a collection of ideas or beliefs shared by a group of people. Often, groups will **share their ideologies** through speeches, pamphlets, books, and articles. Groups share their ideologies because they want to **persuade others** to support their ideas or take a specific set of actions.

What do you think?

Directions: Complete the chart below. Compare your responses with your partner.

	Agree	Disagree	Partner's response
The government should act to ensure that workers have a safe working environment.			
The government should act to set a minimum wage for all workers.			
The government should act to limit how much businesses can earn each year.			
The government should ensure that all people have access to medical care.			
The government should ensure that all people have basic housing.			
The government should ensure that all people have access to schooling.			

Task 1:

If you were trying to convince others in the proletariat to start a revolution against the bourgeoisie, which document do you think would be the most **persuasive**? Circle one.

- Document 1: *The Communist Manifesto* (1848)
- Document 2: *From the Depths* (1906)
- Document 3: *Pyramid of the Capitalist Systems* (1911)

Explain why the document you selected would be the most persuasive tool to convince others to start a revolution against the bourgeoisie.

Document 1

The Communist Manifesto

The Communist Manifesto is an 1848 political pamphlet by the German philosophers Karl Marx and Friedrich Engels. It was prepared for the meeting of the Communist League. This text went on to influence many revolutions and political thinkers.

II. It is high time that Communists should openly, in the face of the whole world, publish their views, their aims, their tendencies, and meet this nursery tale of the Spectre of Communism with a Manifesto of the party itself.

To this end, Communists of various nationalities have assembled in London, and sketched the following Manifesto, to be published in the English, French, German, Italian, Flemish and Danish languages.

I. BOURGEOIS AND PROLETARIANS

The history of all [...] society is the history of class struggles.

[...] Society as a whole is more and more splitting up into two great hostile camps, into two great classes, directly facing each other: Bourgeoisie and Proletariat.

Masses of laborers, crowded into the factory, are organised like soldiers. [...] Not only are they slaves of the bourgeois class, and of the bourgeois State; they are daily and hourly enslaved by the machine, by the overlooker, and, above all, by the individual bourgeois manufacturer himself. [...]

Hitherto, every form of society has been based, as we have already seen, on the antagonism of oppressing and oppressed classes. [...] The modern laborer, on the contrary, instead of rising with the progress of industry, sinks deeper and deeper below the conditions of existence of his own class. He becomes a pauper, and pauperism develops more rapidly than population and wealth. [...] Society can no longer live under this bourgeoisie [...]

IV. POSITION OF THE COMMUNISTS IN RELATION TO THE VARIOUS EXISTING OPPOSITION PARTIES

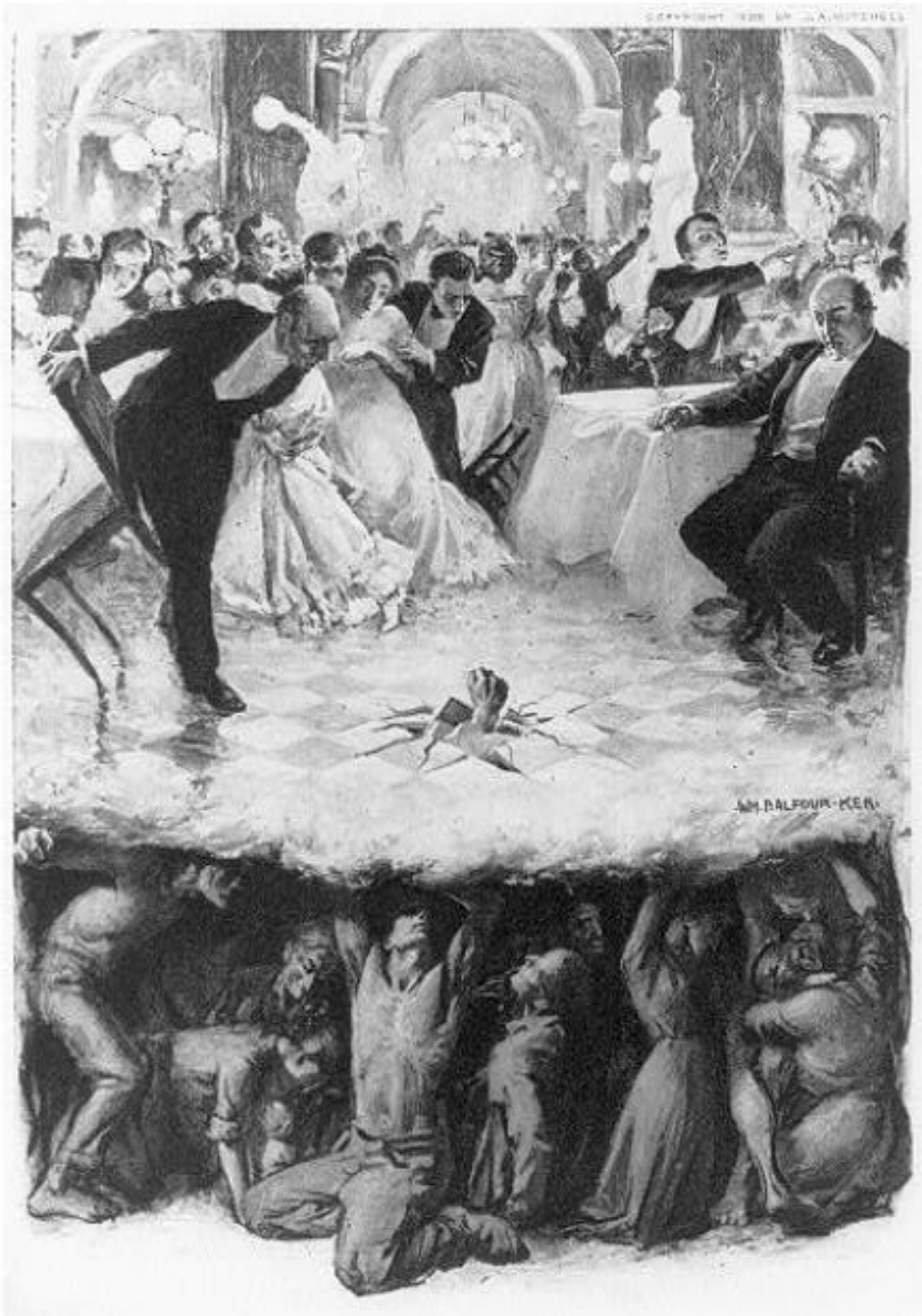
In short, the Communists everywhere support every revolutionary movement against the existing social and political order of things [...]

The Communists disdain to conceal their views and aims. They openly declare that their ends can be attained only by the forcible overthrow of all existing social conditions. Let the ruling classes tremble at a Communistic revolution. The proletarians have nothing to lose but their chains. They have a world to win.

WORKING MEN OF ALL COUNTRIES, UNITE!

1. Explain the **historical circumstances** that led to the developments shown in the excerpt from *The Communist Manifesto*.
2. Identify Frederick Engels and Karl Marx's **point of view** concerning capitalism and the impacts of the Industrial Revolution on the proletariat.
3. Identify Frederick Engels and Karl Marx's **point of view** concerning how the proletariat should respond to the conditions of capitalism and the impacts of the Industrial Revolution.
4. Based on this excerpt, explain the **purpose** of Frederick Engels and Karl Marx's political pamphlet.
5. Identify one possible **audience** for *The Communist Manifesto* (1848). Why do you think this is the audience?
6. How does the **audience impact** how Frederick Engels and Karl Marx present their ideas?

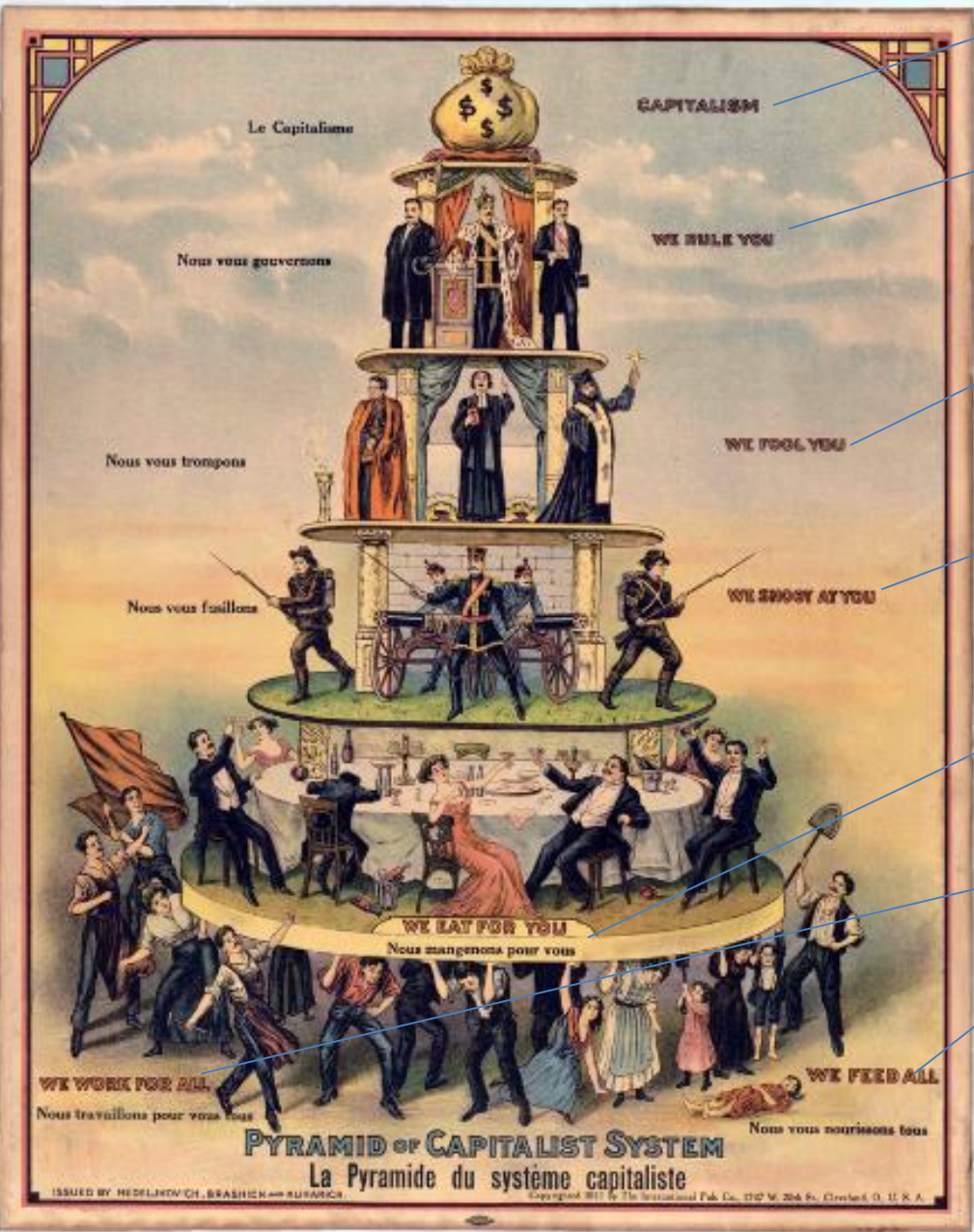
Document 2



1. Identify details in the image.

2. Identify the artist's point of view concerning capitalism and the impacts of the Industrial Revolution.

Document 3



CAPITALISM

We Rule You

We Fool You

We Shoot At You

We Eat For You

We Work For All

We Feed All

1. Identify details in the image.

2. Identify the artist's point of view concerning capitalism & the impacts of the Industrial Rev.

What is the difference between capitalism, socialism, and communism?

Task 1: Identify and explain a similarity or difference between the social classes under capitalism, socialism, and communism. Be sure to include evidence from the chart in your response.

Task 2: Identify and explain a similarity or difference between the goals of capitalism, socialism, and communism. Be sure to include evidence from the chart in your response.

Task 3: Identify and explain a similarity or difference between business ownership in capitalism, socialism, and communism. Be sure to include evidence from the chart in your response.

→Directions: Read the table below and respond to the questions.

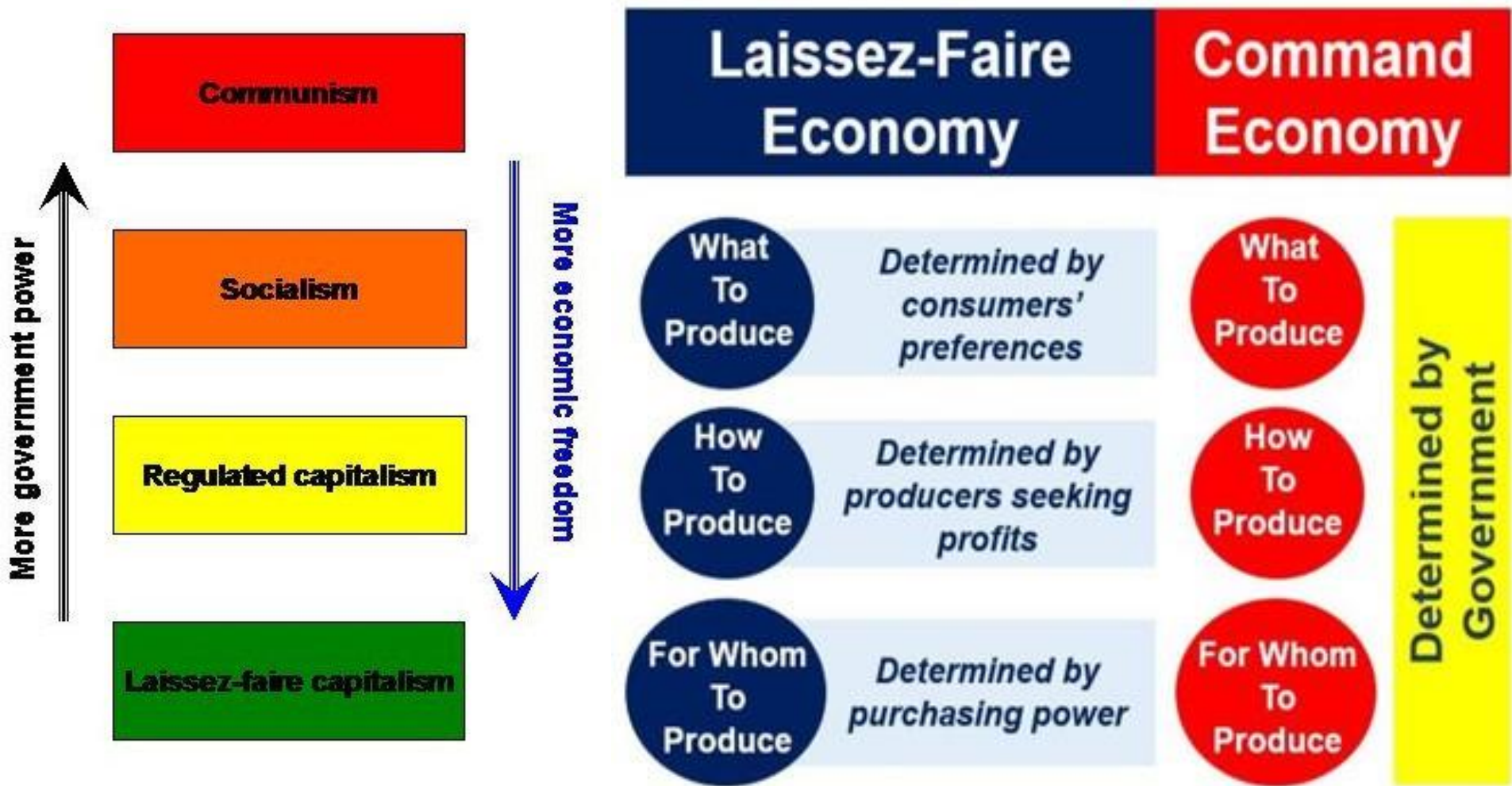
An **economic system** regulates how a society distributes resources and trade goods. During the Industrial Revolution, three new ideas of economic systems emerged:

1. Capitalism
2. Socialism
3. Communism

These economic systems propose different ways to organize how resources are distributed and goods are traded.

	Capitalism	Socialism	Communism
Goal	Individuals should pursue their own self-interest by working to earn individual profit .	We should create a more equal society by working for the common good to redistribute resources based on need .	We should create a classless society by fighting to abolish class distinctions so that we can distribute resources equally .
Belief	Competition improves society.	Cooperation improves society.	Complete equality improves society.
Social Classes	Yes	Some	No
Who owns businesses? (means of production)	Individuals	The government operates and owns major industries, but small businesses are allowed.	The government operates and owns all industries. No small businesses are allowed.
Who decides what people can produce and buy?	Individuals	Individuals and the government	The government
What are my employment options?	You can work for whoever you want.	Some people work for the government.	Most people work for the government.
Who wrote about these economic systems?	Adam Smith, <i>The Wealth of Nations</i>	Karl Marx and Freidrich Engles, <i>The Communist Manifesto</i>	Karl Marx and Freidrich Engles, <i>The Communist Manifesto</i>

There has never been a “pure” example of capitalism, socialism, or communism. Most economic systems are mixed.



	"Capitalism"	"Socialism"
What Socialists think it means	A system of greed and selfishness where people do nothing except try to rip off other people. The only motivating factor to do anything is money.	A system where everyone is completely selfless and will labor voluntarily for the common good. The only motivating factor to do anything is because it might help someone else.
What it really means	A system where people keep what they earn and trade voluntarily for what they need. Individuals are left to pursue their own agendas so long as they don't directly harm others.	A system where all property is controlled by a small group of individuals. They determine what the common good will be and force everyone else to comply.

Capitalism

Competition



Socialism

Cooperation

