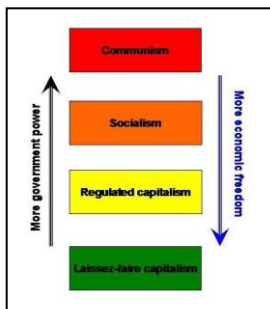
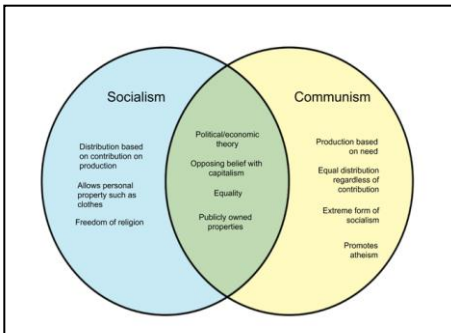
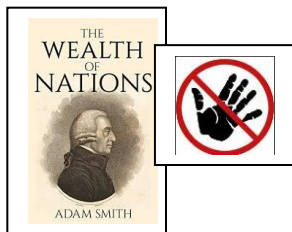
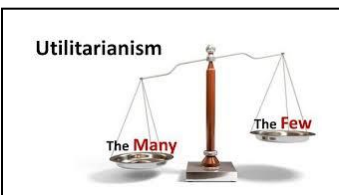
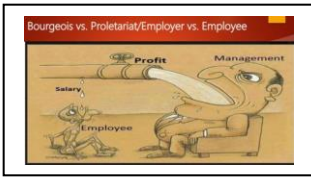
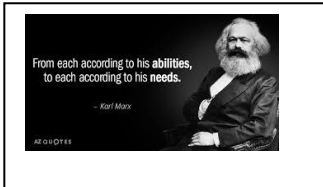
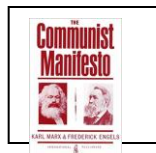
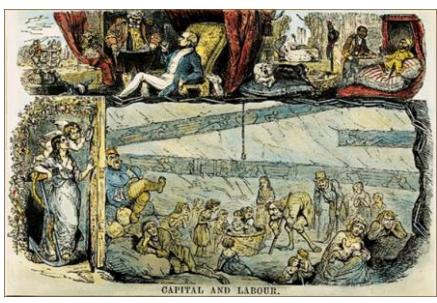


# Aim #10: How Does the Industrial Revolution Change Economic Theory in Europe?



## Mini Lecture

- The dramatic changes from the Industrial Revolution changed who had power in society & were then reflected in the political system. The IR created jobs for thousands & increased the wealth of the middle & upper classes. However, it also caused many problems-extreme poverty for the factory & rural workers. This prompted a heavy debate about ethical behavior & the role of government in the economy. Two competing economic theories emerged. Others proposed reforms in their economic theories.
- Adam Smith**, a major economist of the Enlightenment, wrote *An Inquiry into the Nature and Causes of the Wealth of Nations*- he attacked Mercantilism for regulating economic activity by government & believed that a government should allow its business people to compete freely with one another- free market
- Smith pointed out that business is affected by two *natural laws* (all economic issues will resolve themselves naturally, w/o gov't intervention): **supply & demand and competition**. These benefit all of society.
  - Supply & demand regulates prices: demand for a product rises when it's very popular. If supply is low, people may be willing to pay a high price. Once the supply increases, the price drops. The manufacturers then compete for customers by lowering prices or improving the product.
  - Smith felt market regulate themselves through competition- it motivates people to work more efficiently & create better products. If freely competitive private enterprise is encouraged, more people will have a chance to make more money. Consumers would get better goods at the lowest possible prices. This theory promoting unregulated competition is **laissez-faire** (gov't "leave it alone")- popular with business owners who did not want the gov't to interfere with their business. Gov't should only step in to stop monopolies & restore competition.
- Utilitarians** like **Jeremy Bentham** & **John Stuart Mill**, wanted to base reforms on a simple principle: an action is right & should be promoted if its result is more happiness for more people. Finding that laissez faire capitalism was often inhumane to workers, they advocated for some government intervention & reform to try to achieve "the greatest good for the greatest number of people." They called for reforms such as the formation of labor unions, child labor & safe working conditions laws.
- Socialists** believed in the formation of a new political & economic system where people as a whole (rather than a few wealthy individuals) would own factories. They attacked profit motive & called for affordable prices for everyone. They demanded governments serve the needs of everyone, not just the rich.
- Robert Owen**, a wealthy socialist, created a **utopian** society where residents contributed to & shared in economic success equally- working for the common good.
- Karl Marx** believed laissez faire capitalism is evil because it only benefits the business owners & exploits the workers.
- Marx and **Friedrich Engels** in the *Communist Manifesto* offered a radical economic theory/solution called **communism** ("Scientific Socialism")- a reaction to the poor treatment of the workers of the IR.
- They were shocked by the contrast between the growing wealth of society (with the output of goods) and the growing misery of workers who made the goods (low wages & dangerous working/living conditions). This was brought forth by capitalism because competition made owners to drive wages as low as possible.
- Marx further argues that capitalism placed the **proletariat** (workers) in a constant conflict ("**class struggle**") with the **bourgeoisie** (owners & investors).
- For Marx, the only way to end this class struggle was a bloody revolution. He urged workers to unite and seize ownership of the means of production (the sources of wealth). He envisioned a world in which everything would be shares & businesses would be *cooperative instead of competitive*. A **classless society**. Over time, the government would no longer be necessary and people would be truly free.
- Marx's theory appealed to the workers and the poor as a solution to poverty & unemployment. His ideas did influence communist revolutions in Russia, China, and other countries.

## Review Questions:

- Explain the major differences between Adam Smith's free market ideas & Karl Marx's socialist (communist) ideas?
- What solutions/reforms did Utilitarians and Socialists offer in reaction to the plight of workers?

## Enduring Issue:

Debate of the role of government in promoting economic growth.

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 <b>supply</b> , the amount that is available. How much consumers want something is called <b>demand</b> . The price of something is determined through the <b>law of supply &amp; demand</b> . Producers try to sell their supply for the highest price possible, but this is limited by how much consumers demand it.	There is <b>self-interest</b> so producers and consumers only think about their selfish needs when making decisions.	There is <b>competition</b> where producers compete for consumer money by lowering their prices or introducing new products.

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

**Directions:** Watch the video, read the following excerpts, and then answer the questions that follow.

### *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**.
- By dividing up all of the tasks in a process so each worker does a specific job that they can learn to get really good at and perform quickly, all the workers together can make more goods faster, leading to more productivity.
- Division of labor allows factories to make more goods which they can sell for money. The invisible hand works to get manufactures the right price for their goods and buyer the best deal because of competition as long as a government does not try to put too many rules on the interactions. Since businesses are making money, and consumers are getting good deals, this builds a nation's wealth.
- The **economic system** described in *An Inquiry into the Nature and Causes of the Wealth of Nations* is now known as **capitalism**.

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

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)

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.

[...E]very 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

1. According to Adam Smith, how does the **division of labor** create more **productivity**?
2. According to Adam Smith, how does **division of labor** and **the invisible hand** build a nation's wealth?

## 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?

**Directions:** Read the following 3 documents, answer the questions that follow each, and then answer the following questions: 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? 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

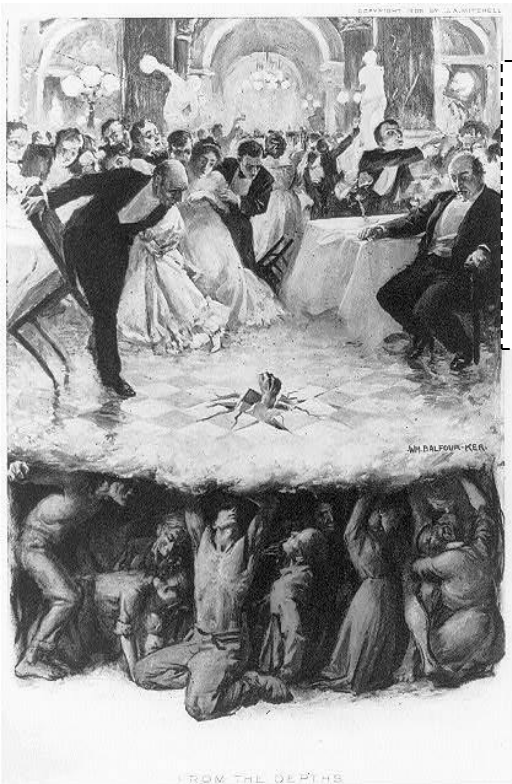
In short, the Communists everywhere support every revolutionary movement against the existing social and political order of things [...]

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!

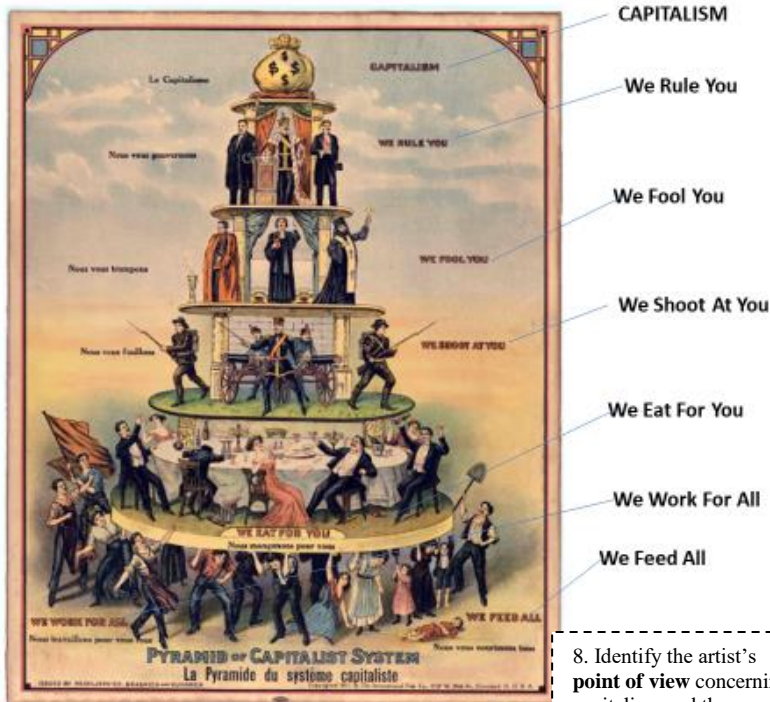
1. Explain the **historical circumstances** that led to the developments shown in the excerpt from *The Communist Manifesto*.
2. Identify Frederick Engels and Karl Marx's **point of view** concerning capitalism and the impacts of the Industrial Revolution on the proletariat.
3. Identify Frederick Engels 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



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

### Document 3



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

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

**Directions:** Complete the chart below.

	Agree	Disagree	Partner's response
1. The government should tell business owners what they can sell.			
2. The government should act to limit how much businesses can earn each year.			
3. The government should decide what a business does with its profits.			
4. Everyone deserves to have healthcare and housing regardless of their income.			
5. There should be social classes such as upper class, middle class, and lower class.			
6. Every person should have the exact same income, housing, healthcare, etc.			

**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. These economic systems propose different ways to organize how resources are distributed and goods are traded. There has never been a “pure” example of capitalism, socialism, or communism. Most economic systems are mixed.

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

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.
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.
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.