New Ways of Thinking

Objectives
- Understand laissez-faire economics and the beliefs of those who supported it.
- Describe the doctrine of utilitarianism.
- Summarize the theories of socialism.
- Explain Marx’s views of the working class and the response to Marxism.

WITNESS HISTORY

The Struggle of the Working Class

Karl Marx and Friedrich Engels give their view on how the Industrial Revolution affected workers:

“Owing to the extensive use of machinery and to division of labor, the work of the proletariat has lost all individual character, and, consequently, all share for the workman. He becomes a link of the machine, and it is only the most simple, most monotonous, and most easily acquired knack that is required of him...”

—From The Communist Manifesto

Focus Question
What new ideas about economics and society were fostered as a result of the Industrial Revolution?

Everywhere in Britain, British economist Thomas Malthus saw the effects of the population explosion—swelled slums, hungry families, unemployment, and widespread misery. After careful study, in 1798 he published An Essay on the Principle of Population. He concluded 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.”

Malthus was one of many thinkers who tried to understand the staggering changes taking place in the early Industrial Age. As heirs to the Enlightenment, these thinkers looked for natural laws that governed the world of business and economics.

Laissez-Faire Economics

During the Enlightenment, 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 laissez-faire, or “hands-off,” approach.

As you have learned, the main proponent of laissez-faire economics was Adam Smith, author of bestseller The Wealth of Nations. Smith asserted that a free market—the 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. Supporters of this free-enterprise capitalism pointed to the successes of the Industrial Age, in which government had played no part.

**Malthus Holds Bleak View** Also a laissez-faire economist, Thomas Malthus predicted that population would outstrip the food supply. The only checks on population growth, he said, 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, many people accepted Malthus’s bleak view as the factory system changed people’s lifestyles for the worse. His view was proved wrong, however. Although the population boom did continue, the food supply grew even faster. As the century progressed, living conditions for the Western world slowly improved—and then people began having 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 Shares View** Another influential British laissez-faire economist, David Ricardo, dedicated himself to economic studies after reading Smith’s *The Wealth of Nations*. Like Malthus, Ricardo did not hold out hope for the working class to escape poverty. Because of such grimy predictions, economics became known as the “dismal science.” In his “Iron Law of Wages,” Ricardo pointed out that wage increases were futile because increases would only cover the cost of necessities. This was because when wages were high, families often had more children instead of existing on the family’s current standard of living.

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

**Utilitarians For Limited Government**

Other thinkers sought to modify laissez-faire doctrine 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 produce 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.

**History Background**

Adam Smith and the Workers After his death in 1790, Adam Smith’s laissez-faire economic theory was used as an argument against reforms. But Smith had been concerned about the welfare of factory workers. In *The Wealth of Nations,* he argued that performing one specialized action all day would cause a worker to become “as stupid and ignorant as it is possible for a human creature to become,” resulting in “mental mutilation, deformity, and wretchedness.”

In his earlier *Theory of Moral Sentiments,* Smith asserted that mind-numbing work harmed a person’s ability to make moral judgments, which had adverse effects on society. He observed that government must try to prevent this from happening to the working poor. He also argued for public education, a radical idea at the time.

**Teach**

**Laissez-Faire Economics/Utilitarians for Limited Government**

**Instruct**

- **Introduce** Direct students’ attention to the image of the large family on this page. Ask Did large families make life easier or harder for working people? (Large families meant more hands to work but also many mouths to feed. What kinds of problems came with overpopulation? (lower wages, unemployment, poverty)

- **Teach** On the board, create three columns, labeled Smith, Malthus and Ricardo; and Bentham and Mill. Have students fill in each group of economists’ ideas on business and the government’s role.

- **Quick Activity** Assign students to three groups to examine the beliefs of Smith, Malthus and Ricardo, or Bentham and Mill. Then organize a quick debate on the strengths and weaknesses of each system in terms of balancing individual freedom and public good.

**Independent Practice**

As students fill in their outlines, circulate to make sure they understand the differences between laissez-faire economics and utilitarianism. For a completed version of the outline, see: *Teaching Resources, Unit 2, p. 49*

**Monitor Progress**

Instruct students to complete the worksheet. Answers

**Caption** Families with many children had more money coming in as the children went off to work at a young age. Government should not interfere in business because a free market eventually brings greater prosperity to everyone.

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Socialist Thought Emerges

Instruct

- **Introduce: Key Terms** Have students find the key terms socialism (in blue) in the text and explain its meaning. Point out the word’s root, social, and that it was supposed to lead to social good, a system that was good for all of society. Ask students to picture a society in which all work is shared and all property is owned in common. As a class, examine challenges that might arise.

- **Teach** Explain that Bentham and Mill wanted to reform laissez-faire economics, but socialists wanted to abolish capitalism entirely. Ask What are the means of production? (farms, factories, railways, and other large businesses that produce and distribute goods.) What is the name of the system in which individuals own the means of production? (capitalism) Why did socialists think that private ownership of the means of production was bad? (They believed it would always lead to wealth for the rich and injustice for poor workers.)

- **Quick Activity** Direct students’ attention to the Infographic on this page. Ask them to compare the actions Robert Owen took to those of other reformers of the time. Then have students complete the interactivity at Web Code: nbp-1941.

Independent Practice

Have students write a paragraph comparing Thomas More’s Utopia with Robert Owen’s New Lanark. Paragraphs should analyze which aspects of New Lanark seem ideal and which do not.

Monitor Progress

To ensure understanding, have students look at their essays on More’s Utopia and Owen’s New Lanark. Ask students to explain whether New Lanark was socialist, capitalist, both, or neither.

Answers

- Mill believed government should intervene to prevent harm to its citizens, such as abuse of workers.

Thinking Critically

1. It appears that children at New Lanark attended classes instead of living in crowded, dirty conditions.
2. Students’ answers should include specific reasons.

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

**Checkpoint** What did John Stuart Mill see as the proper role of government?

### Socialist Thought Emerges

While the champions of laissez-faire economics praised individual rights and private property, some thinkers focused on the social and economic evils of industrial capitalism, which they believed had created a gulf between rich and poor. They argued that inequalities and injustices would be solved by social reform and by reducing the evil of poverty and inequality, they 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. Socialism grew out of the Enlightenment faith in progress and human nature and its concern for social justice.

Are Utopians Dreamers? 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. The name implied that they were impractical dreamers.

**Checkpoint** What did early socialists believe?

### Karl Marx Calls for Worker Control

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.

Marx and Engels wrote a pamphlet, The Communist Manifesto, which they published in 1848. “A spectre is haunting Europe,” it began, “the spectre of communism.” Marx predicted a struggle between social classes that would lead to a classless society where all means of production would be owned by the community. In practice, however, communism later came to refer to a system in which governments led by a small elite controlled all economic and political life.

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 “have” and the “have-nots.” The “have” had always owned the means of production and thus controlled society and all its wealth. In industrialized Europe, Marx said, the “have” were the bourgeoisie. The “have-nots” were the proletariat, or working class. According to Marx, the modern class struggle pitted the bourgeoisie against the proletariat. In the end, he predicted, the proletariat would be

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**Vocabulary Builder**

- **Communism** (kuh-muh-niz-uhm) n.: popularly, social and economic problems. Use the Think-Write-Pair-Share strategy (TE, p. T23) to have students discuss this issue.

**History Background**

Robert Owen Although Robert Owen had mixed success, he left many important legacies. He himself left school at the age of ten to work in the textile industry. When he became a wealthy factory co-owner, he fought for reforms in working hours, child labor, and education.

Jeremy Bentham was one of the partners in Owen’s New Lanark community, where education for workers’ children included a nursery school, a new idea in Britain. In 1825, Owen left New Lanark and started a small cooperative agricultural community across the sea in New Harmony, Indiana. Although the community failed and depleted his resources, the cooperative movement later revived. There are many cooperatives today founded on Owen’s ideas. Owen returned to Britain and helped establish the trade union movement, another important legacy.
3. Responses to the Industrial Revolution

Viewpoints

To help students appreciate different viewpoints about industrialization, have them read the selection Responses to the Industrial Revolution and complete the worksheet.

Assess and Reteach

Assess Progress

- Have students complete the Section Assessment.
- Administer the Section Quiz.
- To further assess student understanding, use Progress Monitoring Transparencies, p. 50

Reteach

If students need more instruction, have them read the section summary.

- Reading and Note Taking Study Guide, p. 97
- Adapted Reading and Note Taking Study Guide, p. 97
- Spanish Reading and Note Taking Study Guide, p. 97

Extend

- Viewpoints

Workers of the World

What did Marx predict was the future of the proletariat?

Marxism in the Future

At first, Marxism gained popularity with many people around the world. Leaders of a number of reform movements adopted the idea that power should be held by workers rather than by business owners. Marx’s ideas, however, would never be practiced exactly as he imagined.

Marxism Briefly Flourishes

In the 1880s, German socialists adopted 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. In the late 1890s, Russian socialists embraced Marxism, and the Russian Revolution of 1917 set up a communist-inspired government. For much of the 1900s, revolutions around the world would adapt Marxist ideas to their own situations and needs. Independence leaders in Asia, Latin America, and Africa would turn to Marxism.

Marxism Loses Appeal

As time passed, however, the failures of Marxist governments would illustrate the flaws in Marx’s arguments. He predicted that workers would unite across national borders to wage class warfare. Instead, nationalism won out over working-class loyalty. In general, people felt stronger ties to their own countries than to the international communist movement. By the end of the twentieth century, few nations remained with communist governments, while nearly every economy included elements of free-market capitalism.

Comprehension and Critical Thinking

1. Identify Points of View Which were the views of laissez-faire economists? (a) Adam Smith, (b) Thomas Malthus, and (c) David Ricardo?

2. Reading Skill: Identify Main Ideas

Use your completed outline to answer the Focus Question: What new ideas about economics and society were fostered as a result of the Industrial Revolution?

For: Against:

- SOCIAL DEMOCRACY
- NATIONALISM
- SOCIALISM
- COMMUNISM

4. Compare Points of View

Contrast the approaches of utilitarianism and socialism to solving economic problems.

5. Synthesize Information

How might workplace reforms have altered Marxist predictions of world revolution?

Writing About History

Quick Write: Write a Thesis Statement

As in other types of essays, it is important to clearly state your thesis, or main idea, when writing an explanatory essay. Write a thesis statement followed by a short paragraph on one of the theories discussed in this section.

Progress Monitoring Online

For additional assessment, have students access Progress Monitoring Online at Web Code nha-1941.
Market Economy
In a market economy, the key economic decisions emerge from the interaction of buyers and sellers in a market. A market allows individuals to exchange, or trade, things. The market economy is also called the free market, the free enterprise system, or capitalism. One key element of this economic system is supply and demand. Producers make, or supply, only what consumers want, or demand. Another element is self-interest, where producers and consumers consider only their own personal gain when making decisions. A third element is competition. Here, producers compete for consumers’ money by lowering prices or introducing new products.

Centrally Planned Economy
In a centrally planned economy the central government, rather than individual producers and consumers in markets, makes the key economic decisions. The centrally planned economy is also called a command economy, a socialist economy, or communism. In a typical communist country, the government sets goals for production and manages nearly all aspects of production and distribution. Everything in a command economy is produced according to a rigid plan. This discourages new ideas and new products that could stimulate economic growth. The result is often poor quality goods, serious shortages, and falling production.

Mixed Economy
A mixed economy is one that has both free enterprise and socialist characteristics. Economic equality, socialists argue, is possible only if the public—in the form of the government—controls the conduct of economic power. Although socialist nations may be democracies, socialism requires a high degree of central planning to achieve economic equality. In mixed economies, government plays a significant role in making the key economic decisions. In modern times, the number of mixed economies has grown. Market systems have benefited from some government intervention, and centrally planned systems have benefited from some free enterprise.

What types of economic systems have societies used to produce and distribute goods and services?

**Economic Systems**

**Objectives**
- Describe the main types of economic systems in the world today.
- Understand how major economic systems have changed over time.

**Market Economy**
In a market economy, the key economic decisions emerge from the interaction of buyers and sellers in a market. When Adam Smith wrote The Wealth of Nations in 1776, traditional agriculture formed the heart of nearly all world economies. In the 1800s, industry began to dominate, especially in Europe and the United States. Industrialists wanted to control their own businesses. Using Smith’s laissez-faire ideas, they pushed for free markets and an end to government interference. The resulting market economy is one of the basic economic systems in the modern world. Other systems followed. These systems can be differentiated by those who make the following key economic decisions:
  1. What will be produced?
  2. How will it be produced?
  3. To whom will the product be distributed?

**Centrally Planned Economy**
In a centrally planned economy, the central government, rather than individual producers and consumers in markets, makes the key economic decisions. In a centrally planned economy, the government sets goals for production and manages nearly all aspects of production and distribution. Everything in a centrally planned economy is produced according to a rigid plan. This discourages new ideas and new products that could stimulate economic growth. The result is often poor quality goods, serious shortages, and falling production.

**Mixed Economy**
A mixed economy is one that has both free enterprise and socialist characteristics. Economic equality, socialists argue, is possible only if the public—in the form of the government—controls the conduct of economic power. Although socialist nations may be democracies, socialism requires a high degree of central planning to achieve economic equality. In mixed economies, government plays a significant role in making the key economic decisions. In modern times, the number of mixed economies has grown. Market systems have benefited from some government intervention, and centrally planned systems have benefited from some free enterprise.

**History Background**

**Social Democracy**
Ferdinand Lassalle, son of a Jewish merchant, founded what became the first Social Democratic Party in Germany in the 1860s. He believed that revolution was unnecessary—that if workers could vote, they would force the state to reform. In the 1890s, in his book Evolutionary Socialism, Eduard Bernstein agreed, and he used scientific methods to refute Marxist theories of revolution. He used statistics to show that capitalism was not collapsing and workers’ lives were not getting worse. Bernstein and others came to believe that democracy could be used to bring about socialist goals. Over the course of the twentieth century, social democratic parties in most countries came to believe in reforming capitalism rather than abolishing it. They prefer democracy to Marx’s “dictatorship of the proletariat.”

**Build Background Knowledge**
1. Ask What kind of economic system does the United States have? (a market economy or capitalism?) Then ask them to compare it to the economic system before the Industrial Revolution.

**Instruct**
Create three columns on the board and list the three economic systems. Have students volunteer information they have learned about each system. Then ask the three questions at the bottom of the introductory paragraph. In each of these economic systems, who decides the answers to these three questions? Traditional and market economies: individuals; command economy: the state; mixed economy: individuals and the state! Use students’ answers to fill in the chart. Then ask them to name nations or regions that have each economic system.

**Independent Practice**
Have students fill in the Concept Connector worksheet on economic systems, which includes additional examples and critical thinking questions.

**Reading and Note Taking**
Circle to make sure that students are filling in their Concept Connector worksheets accurately.

**Thinking Critically**
1. (a) rules to protect workers and consumers (b) to encourage new ideas and products
2. Summaries should show a clear understanding of economic systems.