

Carnegie's Foundation for the Advancement of Teaching, the Endowment for International Peace, a Peace Palace in the Hague, Netherlands, and a plethora of public buildings are evidence of his attempts to distribute his wealth. Despite giving away over 7,500 church organs and building 2,500 libraries, the steel maker failed to accomplish his goal, and he died rich. The effort he initiated continues, however, and the foundations he established have given away over \$5.5 billion. Rockefeller's largesse surpassed even Carnegie's, once he was convinced that philanthropy made for a good business image. Rockefeller family foundations have dispersed sums of money far surpassing the \$10 billion mark. Both these American "robber barons" came to believe that wealth was a "sacred trust" to be used for the good of all.

## *Economic Liberalism*

### ◆ Explaining Capitalism

The *philosophes* of the Enlightenment, guided by their belief in a universe of natural laws, were determined to uncover the natural laws of *society* underpinning the changing world in which they lived. In doing so, they created a new *social* science: Economics. Adam Smith's *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776) still stands as the foundation of that social science.

Born in Scotland and the son of a custom's officer, Adam Smith (1723–1790) went on to become a professor of moral philosophy at Glasgow University. Moral philosophy was a subject that included ethics, political theory, and what was then just coming to be called "political economy." Smith's work earned him a second job as a tutor to a young nobleman traveling to Paris. There, Smith met with a group of French "political economists" known as the Physiocrats. The Physiocrats believed that trade between countries should be "free" (*free* from import-export taxes or regulations). They also felt that land was the only source of wealth: human labor made natural products more useful but did not actually create "new" value; the "new" value (or wealth) were the natural products that grew from the land itself. Smith did not agree with the Physiocrats about the source of wealth: he thought that human labor was the key. But he did agree with Physiocrats about the need to get rid of government interference in the economy. These two views became the foundation of the theory of *laissez-faire*: the economy works best when the government *leaves it alone*.

According to Smith's *Wealth of Nations*, the enterprising spirit of individual investors created the conditions that fostered industrial growth. Since investors knew their own goals better than any government could, governments should stay out of economic affairs and let the market itself tell the entrepreneurs what to do. Like everything else in the universe, there were *natural laws* that governed an economy. The natural "law of supply and demand" kept an economy in balance without any need for government interference. In a factory, efficiency was achieved by a process known as "division and specialization of labor." The task of making something was broken down (divided) into the steps needed to produce it. Then one person (or a group of people) specialized in doing only one of those steps, while others specialized in doing other steps. This increased productivity because specializing in doing only one task over and over increased the skill and speed with which the worker could do it. Smith claimed that the same division and specialization of labor that ensured efficient factory production ensured efficient *social* production: motivated by self-interest, human beings naturally gravitated to those specialized tasks they did best. So, people naturally divided up the labor of producing everything a society needed between themselves, increasing that society's productivity. Furthermore, self-interest also led them into those industries in which the nation could most cheaply excel. No one would make something which could be

imported more cheaply than produced at home. And, for Smith, product, which he defined as *labor* applied to natural resources, was wealth. *Supply* (the amount of goods available for purchase) was regulated by *demand* (the desire of people to purchase those goods). Smith called this most basic law of economics, the “invisible hand” that regulated the marketplace without government interference, so that those self-interested individuals worked for the good of all in society without even knowing they were doing so.

Though Smith had some disagreements with the Physiocrats, his main attack was directed against *mercantilism*, the then-dominant economic theory. Because mercantilists thought only gold and silver were wealth, they encouraged governments to regulate the economy to prevent gold and silver from leaving the country to pay for imported goods. Smith argued that government efforts to create a positive balance of trade (more exports than imports) by means of tariffs, monopolies, and regulations were counterproductive. Instead, governments should recognize that the native skills, natural resources, and climate unique to each country determined what it could make most efficiently. So, a program of free trade in locally produced products would work best for each individual nation and for all combined.

The ideology that blended Enlightenment political principles with Smith’s work became known as *economic liberalism*. As political liberals argued that the best way to preserve our natural rights was limit a government’s political power, economic liberals argued that the best way to preserve our economic freedom and our collective wealth was to limit governmental economic interference. They believed government should limit themselves to defense, political justice, citizen safety, and public works (such as bridges and roads that made it easier to move goods). If they did so, a free market would gradually improve the lives of everyone in society.

## ◆ Classical Economic Theory

Smith’s *Wealth of Nations* was the beginning of what is now called classical economic theory, the first school of modern economics. Classical economic theory tried to uncover and explain the natural laws governing the production and distribution of commodities (raw materials, agricultural products, and manufactured goods). It did not address the lives of those who lost their jobs or saw their wages cut as the Industrial Revolution transformed the economy of Great Britain. Indeed, the successors of Adam Smith concluded that the condition of the new industrial working class could not be improved.

Thomas Robert Malthus (1766–1834) was the first person to be appointed a professor of the new discipline of economics. In 1798 he published an *Essay on the Principle of Population* that marshaled statistics to present an extremely bleak case for the future of the human race. The rapid population gains that accompanied the Industrial Revolution were now a matter of record, and Malthus used these figures to demonstrate that while population tended to grow geometrically, food production increased only arithmetically. Using American census data because the United States of America was considered to be closer to a natural state of existence, Malthus concluded that population would double and redouble until it outran the food supply. War, famine, and disease were nature’s way of correcting the balance between population size and food supply. Malthus argued that men and women ought to cooperate with nature by using moral restraint with regard to begetting children. He believed government should stop trying to defy nature as well, and eliminate measures that only encouraged the poor to have more children than they could feed. His ideas had an immediate impact on Britain’s welfare laws. Prime Minister William Pitt (1759–1806) had promised to increase payments to larger families, and so create more workers

for Britain's new industries. After reading Malthus in 1800, Pitt decided not to proceed with this legislation. Malthus's views were also an important tool in the hands of those seeking to transform Britain's poor relief system into a early form of workfare. In 1834, Poor Relief was converted to a *workhouse* system. The workhouse was a combination of factory and dormitory in which, segregated by sexes, all but the infants and the most ill and elderly had to work in order to eat. Workhouses were intended to be self-supporting, and food was deliberately kept meager to encourage the able-bodied to find jobs outside the workhouse.

David Ricardo (1772–1823), a successful stockbroker who retired early to study economics, was greatly influenced by Malthusian theory. Ricardo was deeply pessimistic regarding the future well-being of the working class. His *Principles of Political Economy and Taxation* (1817) claimed there was an “iron law of wages” that kept worker income at a subsistence level. Ricardo described labor as a commodity whose value fluctuated with the available supply. If workers were scarce, employers raised wages to attract and keep them on the job. In the larger economy, any increase in wages became a higher cost for capitalists and soon translated into higher prices for goods. However, when workers made more money they became optimistic about the future and betrayed their own economic interest by producing more children. Soon there would be more laborers than the economy needed and wages would sink back to a subsistence wage level. Ricardo was not unfeeling; he appreciated the ambitions of the working classes and argued that the real value of goods derived from the labor put into them. But he maintained that the “iron law of wages” was as *natural* and as unbreakable a law as gravity. The pessimistic conclusions of what became known as the classical school of economics gave the subject its reputation as the “dismal science.” Misery seemed to be the inevitable lot of the vast majority of humanity.

## *Alternative Views*

The struggles between factory workers and factory owners for the control of industrialization's future in Great Britain spread to every other European country that tried to catch up to Britain's industrial lead. As they did, a new ideology emerged, one that took a very different view of capitalism from the position put forward by economic liberals. This new ideology was known as socialism. Adam Smith had argued that capitalism was dependent on risk-takers, people with ambition who were willing to invest their money in pursuit of the goal of achieving wealth. Capitalists put up investment money, bought machines, hired laborers, obtained raw materials, recruited managers, and often lost fortunes as they sought success. The rewards that flowed from their efforts by right belonged to them. Both Smith and Ricardo admitted that the actual value of the goods created was the result of the laborers' toil, but they considered the contribution of the capitalist far more vital to the industrial process. *Socialism*, a word that began to be commonly used only in the 1830s, offered a very different view of free enterprise. John Locke had argued that every individual has a natural right to life, liberty, and property. Socialists argued that every human being had a right to *social equality*, and there could be no true equality where property was private. Crime, disease, ignorance, and immorality were not the products of human nature but of social inequality. If labor created value, then that value belonged to the laborer. If laborers had collective ownership of the factories, all would receive their fair share of the wealth the factories produced. Crime, disease, ignorance, and immorality would be minimized or, perhaps, disappear altogether. Most socialists did not long to return to a pre-industrial world, but wanted a more equal allocation of the wealth industrial society created; they just could not agree on how best to achieve this goal. Unlike capitalism, which was based upon the competitiveness of human

nature, early socialism was infused with idealistic visions of human cooperation. Its earliest advocates are sometimes called *utopians*, a disdainful label given them by more radical groups.

## ◆ Utopian Socialism

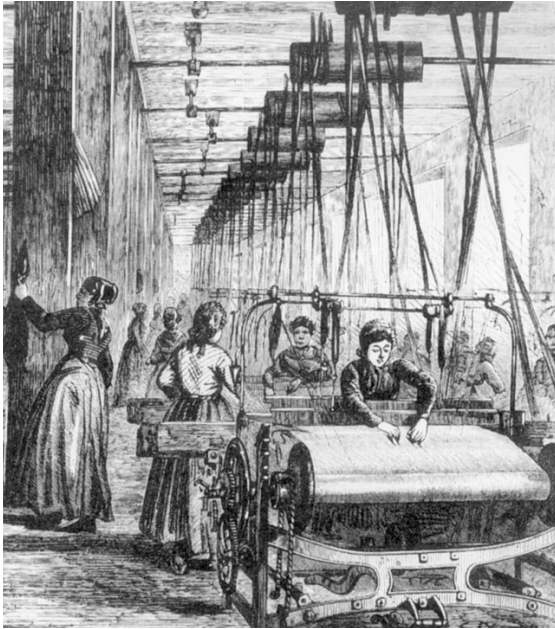
Utopian socialists believed that a better social order must be based upon cooperation rather than competition. Claude Henri de Saint-Simon (1760–1825) was a French nobleman, a veteran of the American Revolution, and an advocate of modern technology. He believed that a modern society could more easily sacrifice 30,000 aristocratic landholders than 3,000 top businessmen and scientists. The old agricultural world was ending, but if humans adopted Christian virtues, if the government owned manufacturing equipment and had it managed by experts, the future age would be one of peace and shared success. A decent civilization would utilize the skills of all and provide rewards to each member of society according to the work accomplished. The charismatic Saint-Simon inspired a group of young followers who kept his vision alive for the rest of the century, and fought unending battles to abolish inheritance rights, achieve full legal equality for women, and finance useful public works. Saint-Simonian socialists believed that economics was a determining cause of history and that wealth could be peacefully and more equitably distributed throughout society.

Some utopian socialists advocated withdrawing from the existing society altogether. Charles Fourier (1772–1837), a French cloth merchant impoverished by the revolution, dreamt of a system in which violence would be replaced by voluntary cooperation. His *Grand Treatise* (1822) denounced the degrading conditions of factory life that alienated workers from their labor and suggested that political revolutions brought only the illusion of liberty. Instead, Fourier argued that equal numbers of men and women living in communities of 1,620 persons (phalanxes), performing up to eight different jobs each day and mutually sharing profits, could create a society more congenial to human needs. There would be no property rights, and the acquisitive passion of each member would be channeled into their labor. Among his other suggestions were large common kitchens and an end to forced monogamy. But Fourier never found a rich sponsor to finance his communities. In the meantime, dozens of small experiments in both France and the United States demonstrated his influence and the growing disillusionment with unrestricted capitalism.

The most well-known of the utopians was the Welshman Robert Owen (1771–1858), who financed his socialist convictions with his own money. Owen was self-educated, but talented enough to move from the factory floor to the rank of manager. He married a factory owner's daughter, and, when he inherited the estate, created a model industrial town at New Lanark, Scotland. He used company profits to build worker housing, establish schools, and set up cooperative stores. Owen successfully demonstrated that an owner could reduce factory hours while paying top wages and still make a profit. His workers loved him, and his mills prospered, but few British owners followed Owen's example. After 1825 the frustrated reformer established a "village of cooperation" in New Harmony, Indiana, a community based upon his ideals and supposedly free of the corruption of existing capitalism. Within three years disagreements over division of profits tore the community apart. Today, the New Harmony site is a museum maintained by the government of the United States.

Those few manufacturers who tried to apply Owen's ideas without going all the way to socialism also experienced problems with the evolving structure of industrial capitalism. In the United States, Francis Cabot Lowell (1775–1817) provided educational programs, libraries,





*Young women formed the bulk of the workforce in nineteenth-century textile mills.*

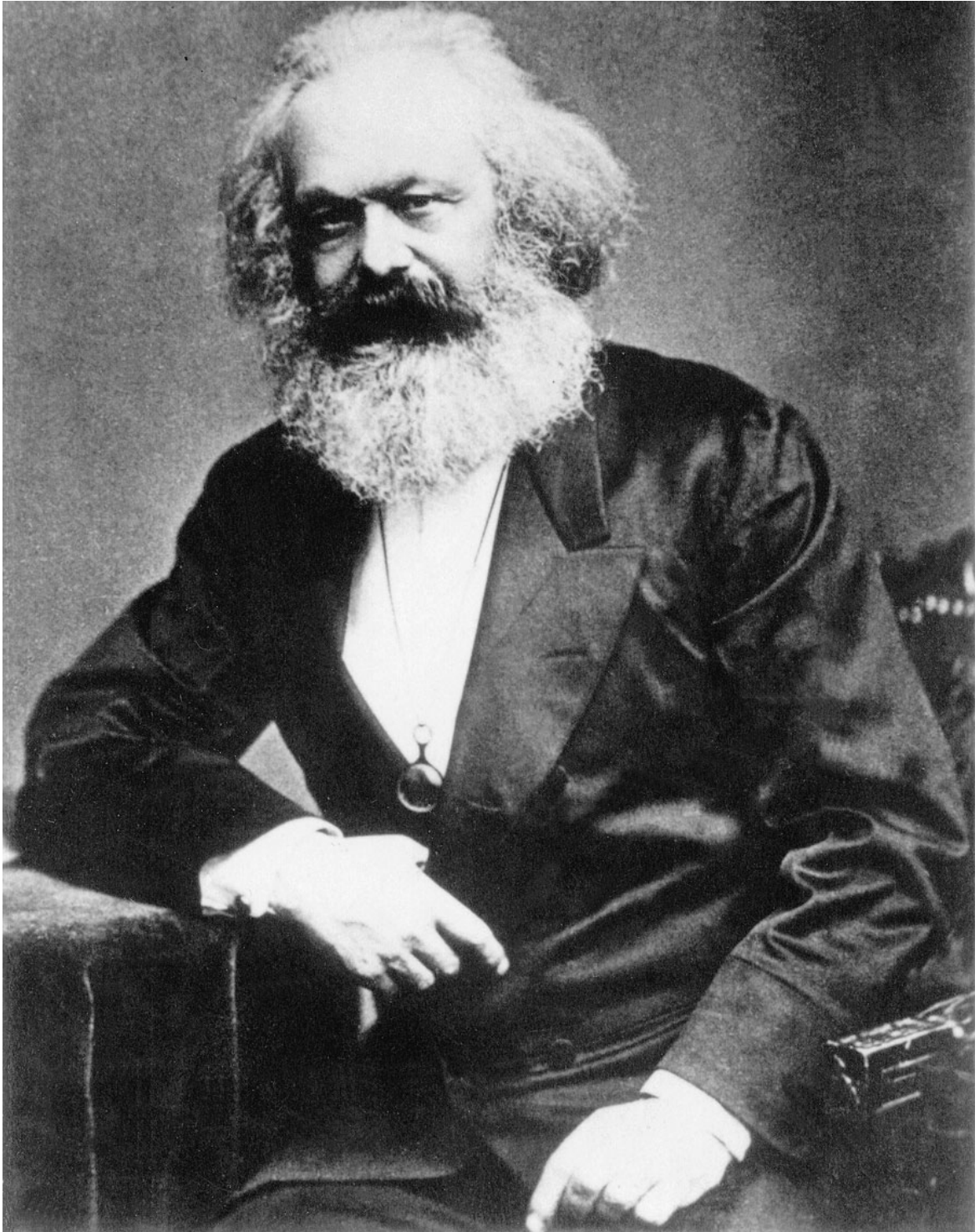
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and churches for the workers at his textile mills, along with chaperoned boarding houses for his unmarried workers. Most of the boarding houses even had a piano. Hundreds of young women were recruited from poor rural families wanting the extra income but reluctant to let their daughters experience city life unprotected. The work week was six days long, twelve hours a day when there was enough sun; breakfast was at six and workers had 45 minutes for lunch. The average work career at the mills was only three years. Most of the “Lowell Girls” hoped to earn enough to contribute towards a future marriage or put a brother through college. Weaving was the highest paid job available to the women: only men could be supervisors. Children under the age of fifteen who worked as bobbin-doffers were taken out of the mills for the three months’ schooling required by state law. But as the textile industry grew, management raised the money charged for such benefits as boarding to keep up with the increasing competition from companies that did not follow Owen’s ideas about increas-

ing productivity by taking care of workers. A series of strikes by workers at Lowell’s mills led management to replace workers born in the United States with recent immigrants from Ireland. Only four percent of the workers at the Lowell mills were foreign-born in 1836, but by the 1860s sixty percent of the mills’ 10,000 workers were foreign-born. These workers soon learned to organize and, although their first strikes were failures, they succeeded in winning a ten-hour workday in 1875. Owen’s vision of cooperation was a thing of the past.

## ◆ Karl Marx and Scientific Socialism

While utopian socialists tried to create alternative societies, the German theorist Karl Marx (1818–1883) saw the need for the total upheaval of society and declared it inevitable. Marx was the grandson of a rabbi and the son of a wealthy lawyer who converted to Christianity. Whatever personal faith Marx possessed was lost during the course of his university education as he earned a doctorate in philosophy (1842). While studying in Berlin, Marx first read Georg Wilhelm Hegel (1770–1831), a philosopher whose writings developed the concept of the *dialectic* to describe the manner in which knowledge was acquired. Hegel said people learn by resolving the conflicts inherent in opposing positions. In this dialectical process, a dominant known position (thesis) was challenged by its opposite (antithesis) until something new, a synthesis, was achieved. This synthesis was not a compromise, but a higher level of understanding that transcended the two original positions. Both Marx and Hegel believed that synthesis, once attained, was superior to what previously existed, but the process did not stop there; each synthesis in turn became a new thesis to be challenged. Hegel believed that dialectical growth took place in the mind after which the results were applied to society. Marx rejected the primacy of ideas and held that the dialectical process



*Karl Marx's "Scientific Socialism" transformed political and economic thought.*  
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operated in the physical world. This is a position known as *materialism*: the belief that there is no reality beyond the physical, tangible world. For Marx, this especially meant the economic world. Nothing was more fundamental to understanding a society, according to Marx, than understanding the way it produced and distributed the goods it needed, because everything else in that society flowed from this. After obtaining his doctorate, Marx chose a career in journalism where he felt he could best promote the interests of the working class he saw as the victim of capitalist exploitation. Ricardo's "Iron Law of Wages" proved to radicals like Marx that capitalists lived in luxury by stealing the labor of workers.

To substantiate his views, Marx devoted his life to discovering and explaining the laws he believed determined the process of history: whatever shaped the past forged the future. But Marx's criticisms of government policies fell foul of official censorship of the press. He was successively forced to flee both Prussia and Belgium. He arrived in Paris in 1847 and soon became a member of the Communist League of the Just. It was there that he met Friedrich Engels (1820–1895), the son of a rich German capitalist who had become passionately devoted to the cause of workingmen's rights while living in Britain.

Late in 1847, Marx and Engels agreed to write a statement summarizing the beliefs of their fledgling communist organization. The little pamphlet they produced became the most successful revolutionary document in world history. Their *Communist Manifesto* appeared in January 1848, offering a reinterpretation of all history based upon a materialistic reading of human activity that saw all ideas, from patriotism to honor to religious faith, as mere reflections of economic reality. Property and class were the truly compelling forces in the chronicle of humanity's past, and its future could be predicted by analyzing present conditions. Marx contended that human destiny was knowable and predictable because it was based on scientific economic laws. So he called his version of socialism "scientific" in contrast to the dreams of the utopians. Insisting that history was determined by these economic laws, Marx promised communists that economic forces already at work would inevitably result in the triumph of the working class, and urged them to dedicate their efforts to that end. In a very real way, Marx offered a vision of the future as vital as any heaven promised by religious faith. For his followers, serving the cause of proletarian revolution became a means to personal salvation. The irony in all this was that Marx, an atheist, condemned institutional religion as "the opiate of the masses," a prime force in denying workers the ability to see their true strength and act on it.

In a series of works culminating in *Capital* (1867), Marx declared that a society's social and political theories and organization were determined by its prevailing method of production—agricultural or industrial—and exchange. In the Middle Ages, kings and nobles ruled because they owned the productive land. Their rule could not be successfully challenged until changing economic conditions created a class that was neither king nor noble nor peasant: the urban bourgeoisie. As commerce and manufacturing became ever more important to society, the political power of the bourgeoisie grew apace. Nineteenth-century capitalism was so powerful an economic force that the bourgeoisie was able to seize control of modern society and all its institutions. It was useless for workers to look to the government to help them, because all governments were created by the owners of the means of production for the sole purpose of keeping power out of the hands of the workers. Revolution was the only way to achieve any progress.

Industrial capitalism had a special role to play in this history of class struggle. Capitalism's tendency to concentrate wealth in fewer and fewer hands was fast creating a world in which there were only two classes: the factory owners and the factory workers. The bourgeoisie (factory owners) and the proletariat (factory workers) were the real-world equivalent of Hegel's *thesis* and *antithesis*. But in the *real* world, the creation of a transcendent *synthesis* was never bloodless.



Marx argued that the increasing productive capacity of industrial capitalism would soon create more goods than the market could absorb. Factory owners would have to lay-off workers. Wageless workers would no longer be able to purchase goods, prompting factory owners to larger lay-offs deepening the recession. Capitalism would go through worsening cycles of overproduction and recession, and each time more and more people from the middle would be pushed down into the working class until workers were not only the majority of the population but an “immense majority” too strong to be controlled. Desperate capitalists would attempt to crush unions, undermine worker unity, and crush discontent, but they were destined to fail. The working class could never be destroyed because it was essential to the continuation of industrial production. In Marx’s striking phrase, capitalism “created its own gravediggers.” After violent struggles the proletariat—that “immense majority” of humankind—would eliminate their oppressors and take control of the means of production. After a transitional stage, which he called the “dictatorship of the proletariat,” the state that had originally been created to control the masses would “wither away.” No one needed a state if there was no one to control. In the resulting socialist society, everyone would be an owner-worker and everyone would be equal. If everyone belonged to the same class, society would be classless. The economic dialectic of history would come to an end. Marx believed that his work would help socialists understand the interaction of economic forces that made the future predictable, and that such knowledge would hasten the inevitable triumph of communism.

In 1848 a combination of nationalism and increasing worker frustration set off a series of revolutions in continental Europe, spreading from France to Russia. Though France once again became a republic, the rest of these revolutions were easily put down by the great powers. In 1849 Marx fled the repression that followed and moved to Britain where he spent the rest of his life studying in the British Museum. His lifetime of research and writing was financed by Engels, who had inherited a fortune. Marx was not content just to theorize. He became an organizer and spokesman for the International Workingmen’s Association (1864). This First International hoped to unite the working people of all nations into a mighty force to prepare for the revolution Marx predicted, but in practical terms it accomplished very little. Part of the reason was Marx’s political ineptitude, but far more important was the growing evidence that his predictions were not being realized. The *Manifesto*’s dire vision of degraded workers living precariously on the edge of subsistence became increasingly less true. Political pressure from organized workers began to have an effect. Governments found themselves making considerable concessions in order to avoid greater turmoil. Real wages rose, unions were legalized, safety conditions improved, and the benefits of mass production were more widely distributed. The workday was shortened to ten hours or less, the work week to five and half days with Saturday afternoons and Sundays off. Male workers were able to gain the vote and created their own successful political parties. Marx’s insistence that there could never be change from within a corrupt economic system was widely debated by socialists even before Marx died in 1883. Even Engels, who oversaw the publication of two additional volumes of *Capital* after the death of his friend, appeared less certain that revolution was imminent.

## ◆ Democratic Socialism

By the time a Second International was established in 1889, the socialist dream of a united working person’s movement had fragmented into separate parties within each of the various European countries. Even more troubling for communists was the emergence of a less radical form of socialism associated with Eduard Bernstein (1850–1932). Bernstein claimed that Marx’s conclusions needed to be reexamined and “revised” in the light of changing industrial conditions. In his



*Evolutionary Socialism* (1899), Bernstein suggested that a violent revolution was neither inevitable nor desirable. Capitalism had demonstrated both staying power and an ability to reform itself. It was an evolving system, one that had already rewarded labor with material benefits, and which might be further improved as workers participated in politics. Bernstein concluded that if unions had helped improve the workers' position in the factory and using the ballot box had brought workers political power, the best thing workers could do was work *within* the democratic system to *gradually* gain greater and greater control. The political parties in Western Europe who adopted Bernstein's position took to calling themselves "democratic" socialists because they aimed at creating social equality through democratic means rather than revolution. Those socialists who stayed loyal to a strict Marxist view denounced Bernstein and the democratic socialists as "revisionists" for daring to revise Marx. Democratic socialism remained most influential in the wealthier industrialized states while Marxist communism was more influential in less developed nations with a profound effect on the political history of the twentieth century.

### ◆ *Rerum Novarum*

Late in the century, the Catholic Church too voiced its disillusionment with unrestricted capitalism and its concerns for the violence and anti-religious bias of Marxist communism. Taking a middle view, Pope Leo XIII (r. 1878–1903) defended the legitimacy of both private property and unionization in the encyclical *Rerum Novarum* (1891). The pope was skeptical about socialist theory and rejected the conception of inevitable class warfare; he believed that a richer future for all persons could be attained under a reformed capitalism with the guidance of the Catholic Church. Like all papal encyclicals, it is known by its first words in Latin, the traditional language of the Catholic Church: *Rerum Novarum* (of new things). The *new thing* was the factory system, the manufacturing method of the Industrial Revolution that changed society beyond recall within little more than one lifetime. New classes—the capitalist factory owner and the urban factory worker—came to dominate the economic life of Europe and contend with each other and with Europe's traditional land-owning aristocracy for political power. New ideologies—economic liberalism and socialism—contended for the hearts and minds of those new classes. New products and technologies—locomotives, telegraphs, steel-supported skyscrapers twelve stories high, cotton underwear—found their way into everyday life and changed it forever. The seasonal round of the farming village was replaced by the clock-driven beat of the city. The debate over the fairness of that society continues until this very day.

And, as industrialization transformed the social and economic organization of Europe, another ideology—nationalism—challenged its political organization with consequences that also continue to shape world affairs, for the modern world is nothing if not a world of independent nation-states. The next chapter looks at the birth of nationalism and the new opportunities and problems it created.

### ◆ Note

1. Marie-Jean-Antoine-Nicolas de Caritat, Marquis de Condorcet, *Outlines of an Historical View of the Progress of Humankind* (London: J. Johnson, 1795), 355.