Part II: The Fall of Mercantilism, Classical Liberal Thinking, and the Dawn of Socialist Thought

General Comments

Although some would consider modern day Japan to be mercantilism in its orientation, the true era of Mercantilism was relatively short lived. In some sense, the merchants of the Mercantilism period, working through the emerging state and centralizing governments, took over the Christian paternalist ethic formally encouraged by the church.

The early portions of this era found much discussion about the common good and the role of the state in promoting community welfare. As this period evolved, the paternalist ethic, to the extent it was still there, became a civil matter, not a religious matter. If anything, this was interpreted by many as the responsibility of the state to check, or at least restrain, the merchants in their pursuit of profits. But it soon became apparent that the paternalist orientation was inconsistent with market competition.

We are going to back up a bit in this presentation and look at the feudalist era once again. We will be talking specifically this time on how feudalism led to mercantilism policies. We will also look at how many church functions came to be taken over by the secular state. Then we will begin to look at the backlash to paternalism and the emergence of thought oriented toward the individual as opposed to the community.

The Origin and Fall of Mercantilism

More on Feudalism and Mercantilism: Mercantilism probably began somewhere in the thirteenth century when Edward I evicted several foreign companies from England. He also put into place policies that would encourage the English wool trade. Finally, he began to significantly regulate commerce within England to the benefit of the emerging merchant class.

It has already been said that Mercantilism continued the paternalistic effort out of the feudalist era. When the long war with France led to inflation in England, Edward I fixed wages and prices for many industries. These wage-price ratios were by and largely favorable to the workers. The notion of the community was still a large part of policy at this time and under the doctrines of the mercantilism era.

Richard II, in the fourteenth century, continued these policies. There was a peasant's revolt in 1381. In order to counter some of the problems that led to this revolt, Richard enacted several maritime laws that clearly favored British production and shipping and which limited foreign competition on England's shores. The obvious purpose of these laws was to bring additional gold into England which was to be used in bringing prosperity to English citizens. Some say current foreign policy of many countries continues this practice.

In the sixteenth century, Henry VII continued and enhanced policies begun by Charles I and Richard II. He also instituted a rather large series of regulations on domestic commerce aimed at reducing the ill effects of overzealous and greedy pursuits of profit by the merchant class. He mollified the merchants with strong protections from foreign competition and through subsidies to merchants most ill-affected by the new commercial policies. Henry also commissioned voyages of discovery and engaged in widespread diplomacy to secure trading and defense treaties favorable to English interests. Mercantilism was in full flower during this period in English history.

When Henry VIII broke with the Catholic church. The result was the secularization of the functions previously performed by the church, another tenant of mercantilism. Much of this occurred because the rate of poverty was increasing in England. The enclosure movement, mentioned earlier, led to significant migration from the land to the cities. Business cycles left a significant number of workers behind. A decrease in the wool trade due to increased competition from abroad led to still further unemployment. Finally, the emphasis of commerce over agriculture led to food shortages and increased
food prices.

The Catholic church could not deal with these significantly worsening problems using the old methods. By secularizing the church, Henry VIII transferred the problems of poverty from the church to the state.

Elizabeth I, James I, and Charles I had to deal with essentially these same problems. For the most part, they attempted to eliminate poverty by encouraging full employment, not unlike what we do today. They generally thought that full employment could be better achieved by encouraging export activity. This followed a very informal export base type of analysis. Exports bring new money into the economy, and this new money flows through the economy in the form of new economic activity resulting in new jobs. The new jobs create income which can be used to purchase even more goods and services at home. The result is a multiplier effect based on the money earned from export activity.

Domestic purchases not from new money exerted much less of an employment impact according to this notion of economic growth and development. After all, domestic consumption out of money already in England was simply a continuation of what was already happening. New jobs could not be created from this attack.

During the sixteenth and seventeenth centuries, several attempts were made to alleviate the problem of poverty and to encourage full employment. Monopolies were granted and protected by the state. The intent was to encourage product and process innovation and to help the merchant secure the necessary funds to establish new industries. As you might suspect, these monopoly grants led to abuses, to graft and corruption, and to profits that were not intended by the legislation.

There was an attempt to scale back these monopoly privileges late in the seventeenth century. Monopolies would not be allowed unless it could be demonstrated that they would lead to new processes, new products, or to significant improvements in the balance of trade. Of course, these loopholes were large enough to drive a truck through and were abused as often as followed.

Statutes were also passed that encouraged the payment of a fair wage, that set conditions for apprenticeships, and that helped control other relationships between the worker and the employer. In return for all these regulations, the worker was required to offer his/her services for hire and to attempt to remain employed under all conditions falling under the regulations. If you are a Marxist, you would note that the relationship between the worker and the employer was never questioned. Only obvious employer abuses were to be limited.

Several poor laws were enacted during this period. The early laws attempted to define the poor as between deserving and undeserving. Later they encourage local parishes to be responsible for the poor and to actively solicit contributions from the local rich to be put into a poor fund for distribution to the deserving. In 1572, a formal poor law was passed which, for the first time, committed the state to providing funds for poor relief. In follow-up provisions contained in the Poor Law of 1601, was a type of workfare provision where the state took on responsibility for trying to find employment for the unemployed and, as a last resort, would hire the unemployed for public purposes. There was a classification of poor called the, “incorrigible vagrant” where prison and poor houses were provided to take them out of the community.

Obviously, poverty was considered a responsibility of the state. These laws were paternalistic in orientation and represented a natural outgrowth of the similar ethic coming out of feudalism.

**Individualism as a Natural Outgrowth of the Early Paternalist Efforts:** We will speak of the rise of individualist thought shortly. For now, understand that, with the civil war in England in 1648 and the Glorious Revolution of 1688, feudalism was dead. Now, the only thing to contend with was the paternalistic holdover from feudalism and the problems associated with the paternalism of the
mercantilism era.

Fortunately for the individualists, merchants began to feel more constrained than helped with the restrictions and regulations coming out of government. They were ready for a new philosophy. From a radical's perspective, Mercantilism accomplished its historic role, the primacy of the merchants over the landed aristocracy. It also brought into being the notions of specialization, of one person working for another, and the primacy of trade.

The new philosophy was best articulated by Adam Smith. The individualist philosophy was talked about by many writers during the mercantilist era. Smith was the first to write a work emphasizing the individual that was both widely read and respected. In this work, Smith laid out the notion that self-interest was the primary motivating characteristic of human beings and that the egoistic behavior that Smith described could be molded to the public good through the operation of markets.

Now that we had a philosophy emphasizing the individual, what about the religious order? Conveniently, we had the protestant movement which, in a religious fashion, philosophically justified the importance of the individual. Selfish and acquisitive behavior became virtues in this new religion which was just what was needed to throw off the restrictions of the Catholic church.

Understand that the very early portions of the Protestant movement agreed with the Catholic church on usury and the just price. But the basic point of departure that allowed later Protestants to glorify the individual was the notion that people could be saved by grace or by faith as opposed to good works. When the Catholic church said the individual could be saved by works, it meant that the individual could be saved through the church. Thus, the church carried a great deal of authority over the behavior of its members. The withholding of absolution meant the person could be doomed to purgatory for eternity.

Since faith is in the heart of the individual, the Protestant could determine his/her own eternal life for him or herself. One had to search one's own heart for truth and for faith. When the merchant and businessman searched his/her heart, private property was found to be virtuous. In fact, private property and the use of this property for producing goods and services for other individuals were, to these folks, a means for the glorification of God.

This initial beginning eventually evolved into the notion that a person glorified God by pursuing their various tasks with hard work, with honesty, and with diligence. No longer was the search for wealth condemned. Now, if anything, the use of wealth was discussed as a possible affront to God. Anything in excess was looked at suspiciously. Excessive wealth accumulation (undefined), excessive consumption (undefined), and extravagances of any type were subject to possible condemnation.

What was found to be "good?" The abstinence from consumption, or savings, was a worthy activity because it meant more for future generations. With the work ethic and the ethic of frugal behavior, we have important components of ideology for the capitalism system to follow. With the ascendancy of the merchants and the reduction of the manor, we have the institutions of capitalism. What happened to the policies out of the mercantilism era?

The New Policies: As we will soon see, Adam Smith led the charge against state intervention into the affairs of the merchants. The competitive market was to be depended upon for the regulation of commerce. All state interruptions were condemned by these writers and thinkers and support from the merchants soon followed.

Individuals such as Dudley North and Bernard Mandeville led the charge before Smith by extolling the virtues of the individual and the individualist ethic. In fact, Mandeville argued that, if we could only do the opposite of the morality that was proposed by earlier societies, the greatest public good could be achieved. As such, merchants should not be restricted from the search for profits. Their savings would create new jobs (sound familiar. The original "trickle down" theory). Their thrift, and the search for better
products, would undoubtedly make society richer and, therefore, better off. This was the beginning of the era of classical liberalism.

What on Earth is a Classical Liberal?

The largest single difference between the mercantilist and the classical liberal was on the issue of trade. The classical liberal was a “free trader” both internally and internationally. We will have much to say about this shortly.

There were other differences as well. The classical liberal took a decidedly different view of the paternalistic efforts associated with both feudalism and mercantilism. They also extolled the virtues of the individual, something not central to any of the earlier systems. Finally, the classical liberal almost invented the concept of competitive markets. They placed all of their faith in the workings of these markets. Again, a concept that was totally foreign to all previous systems.

The Setting for the Classical Liberal - The Industrial Revolution: From a Marxist point of view, the so-called industrial revolution represents a change in the mode of production. This change involved both the forces of production and the techniques of production. With such a change, institutions and ideals would also be required to change.

The industrial revolution took place in England long before most of the rest of the world. What caused it? The fact that, between 1700 and about 1770, the foreign demand for English exports far outstripped the expansion of its domestic demand for both its own and for imported goods and services. This commercial spirit led to an early English rejection of all notions that could be construed as anticapitalist.

The increase in demand for manufactured products and the profits that came with this increasing demand led to the notion that profits were good, and should be encouraged. This, in turn, led to a constant search for new markets, and more importantly to our discussion here, to a search for lower costs. There followed a technological revolution aimed at creating more products at lower cost.

The earliest industry to which these technologies were applied was the English textile industry. E.K. Hunt and Howard J. Sherman described it this way in their book, Economics, An Introduction to Traditional and Radical Views (p. 38):

... an imbalance between the spinning and weaving processes led to many of the innovations. The spinning wheel was not as productive as the hand loom, especially after the 1730's, when the flying shuttle was invented and the weaving process was speeded up considerably. This imbalance led to three inventions that reversed it: the spinning jenny, developed in the 1760s, with which one person could spin several threads simultaneously; the water frame, invented in 1768, which improved spinning by using both rollers and spindles in the process; and the mule, developed in the 1780s, which combined features of the other two and permitted the application of steam power. These new inventions could be used most economically in factories located near sources of water power (and later steam power).

The move toward water power, and especially the later move toward steam power, turned the textile industry into a factory system where several hundred people were asked to work under one roof.

Steam power was important to another English industry, the iron industry. The original steam engine was used to pump water out of the coal mines greatly increasing the production of this important resource in iron manufacturing.
Early iron production utilized charcoal from trees. But as forests began to be depleted, iron had to be imported from other countries. In 1709, a process for making coke from coal was invented. With this invention, and with the process utilizing the steam engine to remove water from the coal mines, the iron industry expanded greatly around the English town of Birmingham (where UMD currently holds its Study in England program). In the late eighteenth century, a host of inventions was developed to enhance iron production and to make a product of higher quality. This led to the development of many other manufacturing concerns that could utilize iron in their own production processes.

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In 1769, the steam engine moved from a simple device to pump water to an industrial steam engine utilizing pistons. This invention really turned the promise of the industrial revolution into reality at the turn of the eighteenth century. It represented a change in the techniques of production that led to a multitude of changes in society and the way humans related to one another economically.

No longer was industry dependent on water as a location site. Industry could now locate in response to other incentives. Transportation, for example, soon became a leading factor in industrial location. While water transportation was extremely important, location could now take place on any of the many canals being developed in England at that point in history. Large cities began to emerge along these waterways, London, Manchester, and Birmingham being the most obvious examples, that could accommodate large populations needed for the factory system. This also meant that the industries could locate nearer to their markets. This self-reinforcing process led to the modern city, with its people and its factories belching out smoke and products (bads and goods) at a rate never before experienced. By the early 1800's, nearly half of England's population was recorded as factory workers, living in cities, and working 60 to 80 hours per week as a matter of course.

Classical Liberalism: It was out of this setting that classical liberalism arose. There are many aspects to this train of thought to which we will now turn our attention.

The Ideology and the Individual — The individualist ideology of the classical liberal was extremely different from that of Marx or of the paternalism that preceded the industrial revolution. From a personal point of view, it held that individuals were the most important component of a society. No longer is the society at large to take precedence. Any societal attempts to restrict the individual was totally foreign to classical liberal thinking.

And how was the individual to behave? The classical liberals adopted the theories of one of their giants, Jeremy Bentham, who developed a theory of individual hedonism and attached it to the individual. In this theory, individuals were thought to be motivated by a desire to seek out pleasure and to avoid pain. The theory went even further than this. It claimed that individuals were somehow able to calculate these pleasures and pains and to pursue the pleasures that were greatest and to avoid the most undesirable pains. Thus, the individual was both hedonistic and calculating in attempting to maximize benefits while minimizing costs (in the more modern phraseology).

Now, nowhere is this calculation more important than in the workplace. For another tenant of the classical liberal's view of the individual is that each of us is inherently lazy and inert. This means, left to our own devices, we would choose leisure (pleasure) over work (pain). Note that the word "work" has four letters if you don't believe me (a joke, O.K.?).

This represents a major difference between Marx and the classical liberals. Marx felt that individuals loved to create and produce; that creating things of value and use was a major motivation for the worker, indeed, for the human being. To Marx, the problem in capitalism was that the work was so specialized and routine that the worker had no sense of accomplishment. They often could not even see the final product to which their work contributed.

To the classical liberal, the only way to get people to work was to promise them future pleasures, such as the consumption that was possible out of their pay, or to threaten pain when work was not
accomplished, such as being fired or laid off. Of course, if one was fired or laid off, starvation and disease were the likely painful results.

The paternalistic philosophy present in England prior to the nineteenth century died. Helping the poor was viewed as a reward for laziness. The new poor laws, especially that of 1834, ended paternalism and made the individual responsible for his/her laziness (sound familiar today with our welfare reform measures?).

So the ideology, at least when applied to people, was that the individual was more important than the group, that the individual was only interested in maximizing pleasure and minimizing pain, that the individual could somehow measure these pleasures and pains and could even prioritize them, that the individual was basically lazy, and that the pleasures and pains principle had to be used to convince the individual to do work. Ambition, which was to take the incentives given and work toward the maximum net benefits, was glorified in this system and the so-called work ethic was born.

The Economic Ideology — The economic ideology can be attributed mostly to the writings of a man with the unlikely name of Adam Smith. Smith was a Scotsman and was trained in theology. But he soon took an interest in economics. While bored with tutoring a patron's child in France, he wrote a book that was to change the world's view of economic behavior. This book, published in the unlikely year (from America's perspective anyway) of 1776, was titled, An Enquiry into the Nature and Causes of the Wealth of Nations. One of the motivations for writing this book was to quarrel with the tenants of mercantilism.

Smith began by extolling the virtues of specialization. Henry Ford might have instituted the practice of the assembly line, but Smith was the one that explained it in a philosophical way. His example was the manufacture of pins. His theory was that one individual, carrying out all the operations of pin manufacturing himself (creating the head of the pin, the shank, the point, putting them together into the final product, and packing them in a barrel) might produce but on barrel a week. However, if one person were to produce the head of the pin, another the shank, another to put the point on the shank, another to attach the head to the shank, and another to pack the pins in the barrel, several barrels per day might be created. In other words, productivity would be greatly increased. Ever since Smith used this example, economists have been known as pinheads (sorry about that one).

Through specialization, each individual would be used for what they could do best. If all I did was make the head of a pin, I would eventually get to be very good at it. Natural advantages would emerge and would be attached to the individual which would eventually lead to greater and greater levels of productivity.

Smith certainly bought into the idea that individuals should be honored in society. He also agreed that individuals were inherently egoistic, i.e., would pursue their own interests. So how would these individuals be constrained by society to not take advantage of others?

Certainly, there was a role for government in some instances. Government had to assure that contracts entered into were honored by all parties. Thus no one individual had the right to take advantage of others through fraud or by not carrying out the promises made in a contract. Further, government had the police function for individual actions that were deemed to be illegal, such as robbery or the various forms of deception.

Yet, Smith wanted individuals to be as free as possible to pursue their own interests. He felt that, by such pursuits, the individual would put their resources into those things that were wanted most by society. He explained this as follows:

[Each producer] intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, 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 society more effectually than when he really intends to promote it. (*Wealth of Nations*)

What was the invisible hand that would lead selfish individuals to do good for society? It was competition. Let's take chair making as an example. If I and many like me have a plant making chairs, it is in my interest to produce the best chair possible and offer it for the lowest price possible so that I can sell my chairs over my competitors' chairs. I will continually want to improve my product, and lower the costs of its production, so I can offer the best value to my customers. The result is that I realize my own self interest (profit) while offering society the best product at the lowest price.

Selfish consumers provide the market signals that encourage entrepreneurs to put their resources into producing what is really wanted by society. So the role of the consumer is to pursue their own interests and, through their expenditure votes, direct investment toward what is most wanted or needed.

Armed with the *invisible hand doctrine* and with his discussions concerning the virtues of specialization, Adam Smith developed an argument for free trade. He said the mercantilists were wrong in thinking that gold was the same as wealth. You cannot wear gold (unless you are Cleopatra), you cannot eat gold, and you cannot use gold as building material for a house. The true wealth of a nation, according to Smith, is the goods and services it has to meet the needs of its population.

If it is beneficial for individuals to specialize, and if the invisible hand directs specialists to do well for society, then isn't it also true for nations? For example, if France was better suited to growing grapes and making wine and England was better suited for textile manufacturing, wouldn't it be advantageous for France to specialize in wine making and England in textile manufacturing and then trade with one another out of their surpluses? More wine and more textiles would be produced through this process, i.e., the size of the world's economic pie would be larger than in the absence of specialization. Through trade, this larger economic pie would result in more wine and more textiles being consumed in both England and in France. Moreover, trade maintains the competition necessary to make sure that individuals are guided by the invisible hand and to prevent them from taking advantage of others.

All of these advantages of the unfettered operation of the free market were to be enhanced even more through the use of roundabout production. Machinery (capital) would lead to advances in productivity and would allow for greater benefits from specialized labor. Capital accumulation, far from Marx's view of a process whereby incomes are consolidated in fewer and fewer hands, is a productivity enhancing process whereby world prosperity would result. But only if there were trade in the absence of government regulation or interference.

What is more, the paternalistic efforts of earlier systems were to be discouraged. These represented interference and encouraged workers to avoid their mission to produce. Such paternalism takes away the incentive for work that is necessary to get people to accept jobs that are repetitive and often boring. Not only that, but concern for others by the rich would only take them away from the incentives they have to maximize their own well-being. The invisible hand cannot work if individuals do not pursue their own interests to the exclusion of the interests of others. The entrepreneurs and the rich were to use their profits for investment, not for welfare. In this way they create the jobs so necessary for the well being of the population.

What were the proper roles for government? As stated earlier, government was necessary to enforce contracts and to operate a police force to prevent self-interested individuals from committing crimes. Government was also necessary to provide for purely public goods, the most obvious of these being defense. Interestingly, Smith also thought that government should provide for public education. He recognized that divisions of labor into specialized processes would potentially result in boring and repetitive work. He felt that education provided a means of mental escape from this process that would allow the worker to think of other things. Therefore, he justified public and universal education from this point of view.
Other than these few responsibilities, Smith felt that the best government was the one that would let markets make allocation decisions. The government should, in other words, be minimalistic, i.e., it should simply stay out of the way.

The Anti-Paternalistic Ideal Carried to its Extreme: Thomas Robert Malthus and the Theory of Population — While the theories of Adam Smith laid the groundwork for the end to paternalistic philosophies, a pastor named Thomas Robert Malthus sealed the casket with his Theory of Population. His theory was applied to the world’s ability to feed itself.

Malthus felt that the capacity for the world based on its natural resources was fixed. He also felt that, because of human beings’ overwhelming pursuit of sexual pleasures, the population of the world, if unchecked, would expand beyond the earth’s capacity for producing food.

It’s been far too long for me to write lecture notes without a graph. Let’s think of things in this way: The earth’s resources are fixed and we are adding a variable resource, labor (population), to these fixed resources. In modern theory, when you add a variable resource to other resources whose supplies are fixed, the law of diminishing returns rears its ugly head. Output will, at least after a point, increase with increases in the employment of variable resource inputs. But it will do so at a diminishing rate.

Now, as population increases, the needs of this population increase at a linear rate. Two people need twice as much food to survive as does one person. Three people need three times as much food, and so on. We put these two concepts on the figure to the left. The law of diminishing returns is reflected in the bowed line labeled “production.” The needs increasing linearly are reflected in the straight line labeled “needs.”

What would happen if population were at the level indicated by line A? This is prosperity, i.e., society has more than it needs to survive. But what does prosperity bring with it? Very unfortunate results: people live longer. Not only that, but the rate of infant mortality falls. And if this isn’t bad enough, because humans like sex so much, more children will be born. All of this, more children with lower mortality and a longer life span for adults, leads to increased population levels. The population slides rightward from line A.

What happens if population is at the level represented by line B? Obviously, the need for food outstrips the possibility for producing food. Bad news, war, pestilence, famine, all occur. People die at earlier ages. Infant mortality goes up. And I guess our desire for sex, or at least for children, diminishes. In short, population declines.

In fact, Malthus called the bad news list of war, pestilence, and famine, the “positive checks” to population increases. He felt they were necessary for population to reach its equilibrium. Malthus also listed a second possibility for checking population growth which he called the “preventive checks.” While positive checks affected the rate of deaths, preventive checks affected the rate of birth. Moral restraint, birth control, and vice were the most common preventive checks.
Malthus believed that preventive checks would work for the rich. They would want to have fewer children so they wouldn’t have to distribute their legacy, their inheritance, over too many children. But the poor . . . the poor were too stupid (my words) to understand the wisdom of limiting population. Birth control might work for the rich, but only positive checks and vice could limit the poor. Certainly the chances for restraint were virtually zero amongst the brutish and relatively stupid poor.

So what is the population equilibrium condition? Equilibrium is achieved when the population level is where food production and food needs intersect. Another word for this equilibrium is subsistence. In other words, the long-run condition of the earth’s population would be to have just enough food to feed everyone.

So what do we do about this? Malthus argued we had to let the poor die. Since they could not effectively use preventive checks, only positive checks remained as a lock on uncontrolled population increases. Letting them die meant the end of welfare as we know it (to coin a phrase). Malthus even went so far as to recommend that we encourage filthy living habits for the poor so that disease would be prevalent in poor communities. He also recommended building houses in narrow streets and very close to one another so that disease would take hold and spread through the community. And finally, the poor should not be helped to repopulate through the giving of alms, either by the rich or by the government. To do so would only increase population and reduce the food available for the true drivers of the economy, the rich. At best, such paternalistic policies would be doomed to failure because they would encourage the poor to have more children and, what is just as bad, would reduce the mortality of poor children. Do you wonder why, after Malthus’s theory became know, economics became known as “the dismal science.”

The Legacy — Adam Smith was actually more distrustful of free enterprise than many of his followers. He argued that no two businesspeople would be in the same room but that they would conspire against their customers. He was very worried about the possibility for monopoly power to emerge. Monopoly power would, of course, eliminate the virtues of the invisible hand.

The classical liberals that followed such people as Smith and Malthus (even some today) had no such worries, however. They agreed that government should not interfere with the business pursuit of profits. However, they interpreted Smith’s roles for government in a very interesting way. They interpreted the government’s role of providing public goods as an argument for subsidy of business. In other words, interference by the government in economic affairs was bad only when it hurt the capitalists. Any interference that would help the now called business climate could be justified according to this revisionist thinking.

Thus, the provision of stable financial markets, a stable currency, policies against inflation, the provision of roads and other transportation for the movement of goods, establishing standards for measures and weights, all were a part of the public’s responsibility. And, of course, the lowest taxes possible on the rich were also encouraged to promote investment and growth.

The classical liberals also bought into most of Malthus’s arguments. Paternalism was dead. Debtor’s prisons replaced aid and comfort to the needy. Workers were treated little better than the slaves of the ancients, working long hours for very low pay with no commitment of help from the government. Any attempt to help the poor was seen to bring about greater problems than such aid could ever solve.

The Inevitable Reaction

Some Consequences from the Industrial Revolution: The first consequence is obvious. Production of goods and services after the industrial revolution increased at rates that were far beyond any preceding economic arrangements. The standard of living of at least some of the population at those early times increased many fold.

However, in order to foster growth, consumer goods had to be sacrificed in favor of capital goods
- a classic production possibility example. Those with the least economic and political power, the poor and the working class, were pushed into the subsistence level predicted by Malthus, but perhaps for different reasons. While it is not clear whether the standard of living for the working class increased or decreased over the first half of the nineteenth century in England, it is clear that it decreased during the last half of the century. There is no doubt that the workers standard of living decreased in relative terms, i.e., relative to the owners of the means of production, as it is in the United States today.

This does not mean that all workers lost out. Many are quick to point out that the middle class, the class of professionals and educated/skilled workers did well. But the workers in the factories and the servants (a very large occupation during this period) did not do well at all. Their work was brutish. Taking from Bentham, the use of the threat of pain was much more in vogue than the promise of pleasure. From a Marxist perspective, the workers lost any pride in their work. They rarely saw a finished product. By the way, Smith was also concerned that this might be a negative outcome from his otherwise splendid market system.

What is more, capital became more important to the industrialists than the workers. No sacrifice was too great to allow the system to develop more machinery, i.e., to accumulate capital. In fact, there are many recorded instances of worker revolts during this period, as often against the machinery itself as against the capitalists that owned the machines.

Women and children were put to work. Hours were long and working conditions were horrible. The thought of worker safety was completely absent from the factory system. People in debt were often required to work even longer hours, without pay, to reduce their debts. Sometimes the children of the debtors were "willed" to the factory to pay off the parent's obligations. These children worked very long hours with no pay for their services. The average work day for a child was 14 hours a day.

Women were expected to work just as hard. If a woman was with child, she was expected to work up to birth the same long and dangerous days as anyone else. She was excused for very short times to have the baby, but was expected to be back at work within a week or so after birth.

Conditions in the poor neighborhoods would have made Malthus proud. Smoke was everywhere. Water supply was sporadic. Sanitation was there, but horrible by most standards. Overcrowding was a way of life. As a result, Malthus's diseases were present everywhere. Filth and misery were the norms.

In the late 1700's, many attempts were made by the workers to form collectives, predecessors to what we now call unions. This was soon met by legislation to ban such activity. The combination act of 1799, for example, outlawed the formation of any collective of workers for the purpose of bettering working conditions, wage levels, or the introduction of any interference with the free actions of employers. Interestingly, the principal argument for such legislation was the elimination of monopoly power in the marketplace.

It has already been mentioned that poor relief was, for all practical purposes, eliminated during this period. The welfare recipient was essentially eliminated. The legislation of the day required the poor to accept any job, at any level of pay, that was available (sound familiar today?). Those that could or would not could actually be imprisoned for their lack of ambition (O.K., we don't have debtor's prison, but we certainly have an inmate population that is made up, by and large, by the poor).

Social upheaval, riots, and other forms of rebellion soon began to occur. From very early in the industrial revolution, some of our best literature, like that of Charles Dickons, was written to highlight the plight of the worker. And new systems of thought generally termed as socialist began to emerge.

*The Classical Liberal Socialist, Thomas Hodskin:* Yes Virginia, there is a Santa Clause and there were classical liberals that thought of themselves in a socialist vein. One theme is common to all socialists, however. That is that the primary evils associated with capitalism stems from the institution,
private property. All the early socialists, including the ones I here classify as classical liberals, advocate the elimination of this source of evil.

One of the leading classical liberal socialists was Thomas Hodskin. In 1825, he wrote the book, *Labour Defended Against the Claims of Capital*. In it, he argued against the claim that private ownership was necessary for the benefits of capitalism to be realized. He argued that capital, taken by itself, was not productive. Therefore, earnings from the ownership of capital were unearned. The truly productive resource was labor, much like Marx was to argue in his works.

Hodskin's example was that of the fisherperson. While it appears that a fish is caught through the interaction of the worker and the fishnet, in fact it is the interaction between the fisherperson and the maker of nets. To think that things produce anything is ludicrous, according to Hodskin. All societies find workers interacting with other workers. It is strange to think that workers interact with things.

However, Hodskin's rejection of private ownership of capital was his only departure with the classical liberal philosophy. He believed in competitive markets through what would now be called market socialism. As an example, we know there is a strong movement in the United States today to make public schools competitive. This could be accomplished by having state monies follow enrollments. Schools that provide the services that attract enrollment will find their funding being higher than schools that are inferior in the student's/parent's minds. This would be an example of what Hodskin was thinking with his market socialist philosophy. The profits of such markets would be used to enhance the provision of goods and services instead of enriching the owners of capital.

Hodskin also agreed with the characteristics of human nature put forward by the classical liberals. However, he did feel that the appeal to pleasures should be used over the threat of pain in order to get workers to put forth effort.

*The Rejection of Classical Liberal Thinking, William Thompson* — Most of Thompson's writings were in the early 1800's. He rejected classical liberalism at its core. He did not accept that markets should allocate resources. That is because markets led to five inevitable evils:

- Markets make every individual a competitor with every other individual. The benefit from cooperation is difficult, if not impossible, from such an arrangement. Included in this is the fact that everyone, in his or her own profession, is in competition with the public. Thus, professions that are supposed to serve the public devise ways to take advantage of the public.

- The second consequence is that, in the single-minded pursuit of wealth, the suppression of women was inevitable (an interesting contention for that day and time). Thompson felt that the drudgery that women faced in nurturing the nuclear family could be best overcome by many households cooperating with one another. There could then be a common fund for providing the food and clothing needed by the children.

- The third consequence was the business cycle. Thompson was one of the first to specifically note that capitalism was inherently unstable and would lead to periods of rising unemployment. Waste was also a part of the pursuit of profits and the competitive process since winning was the only goal, not producing in a sustainable manner.

- The fourth evil was that it would not provide for sickness, malformation, or old age. In short, capitalism could not provide insurance for those that truly need it.

- The final evil was that competition would retard the dissemination of knowledge. Knowledge itself was an instrument of competition. To hide innovations and to reduce the general knowledge of industrial processes was a natural outgrowth of such competition.
Thompson called for a society that contained no private ownership of capital and that was based on planning. This society would emphasize cooperative modes of organization and behavior as opposed to competition. Cooperative communities would be established that would be self-governing. These communities would have from 500 to 2000 members. The role of government would be to coordinate the work of the various cooperatives for the betterment of all of society. Children would be taken care of communally. People could take what they needed from a common store. There was to be no division of labor. Everyone would be responsible for child rearing, cooking, cleaning, and the production of goods and services. All freedoms, religion, political affiliation, and the freedom of expression would be guaranteed. All would be guaranteed a good education. And most important, material wealth would be owned in common.

*The Leading Life-Stylist, Robert Owen*: Robert Owen is a very interesting individual. He was born five years before the writing of the *Wealth of Nation’s*. He began as an apprentice, but soon became the manager of a large textile mill. In that capacity, he earned quite a fortune.

His influence, which was considerable, was in his actions at the mill. While he was demanding as an employer, he was also a benevolent autocrat. He felt that taking care of the workers was far more important that his colleagues in other factories might feel. As such, he did everything in his power to offer good working conditions at livable wages. He did try to maximize profits, but through the work of his workforce, not through their subjugation. His argument was that the paternalistic ethic was not inconsistent with capitalism.

Some modern concepts were utilized by Owen. He had groups of workers meet to explore better ways of doing things. Today we would call this a form of “high performance work organization.” He did not feel that a class higher than another should be allowed to use that position to take advantage of the lower class. All should be equal in the eyes of society. Thus, private ownership of the means of production should not be allowed to justify the exploitation of all by the owners.

Owen believed in cooperation toward a common goal. His high performance work organization style is an example of this belief. Industrial and agricultural communities should be self-governing, according to this view. The self-governing organization will find ways to continuously improve their lives by improving the services they offer to the outside world.

In his later writings, he argued that the easiest way to provide for these self-governing societies without one class taking advantage of others would be to eliminate private property and the profit motive. This is interesting since such elimination would be quite contrary to the way Owen ran his factory.

Owen’s theories and practice were some kind of combination of feudalism’s notion of the Christian Paternalistic Ethic with that of the growth and development capitalism offered. Unlike the feudalists, Owen maintained that all were truly equal and should be treated as such. Membership in a higher class should offer no special privileges. We should take care of one another because it’s the right thing to do. Owen probably moved socialist thinking toward some kind utopian view where everyone is equal in the eyes of society, if not in the eyes of God.

*Time to Stop*: There were many other pre-Marxist socialists that could be discussed. We will stop here, however. Suffice it to say that not everyone agreed that the new capitalist system was the best way to organize society. Many workers instinctively felt this to be the case and thinkers such as those listed above began to imagine new and, at least to them, better ways of organizing ourselves.