

## LAISSEZ-FAIRE ECONOMICS AND CLASSICAL LIBERALISM

With the rise of wealthy factory owners, a new class of people was created in England. The upper-middle class of businessmen, industrialists, and bankers became a powerful political force and challenged the power of the large landowners. Their political philosophy is now known as “classical liberalism,” and their economic philosophy is called *laissez-faire* (“let it happen”) economics.

Laissez-faire economics was a philosophy developed by Adam Smith. In 1776 Smith wrote the book *The Wealth of Nations* in which he criticized the old economic philosophy of “mercantilism” and proposed a new plan for economic growth.

Under mercantilism, governments had intervened actively in the economy and had protected their own industries by putting tariffs (taxes) on foreign products coming into the country. Smith proposed that the economy did best when it was left alone by the government (thus the name *laissez-faire*). He emphasized the importance of trade and of specialization of labor. He harshly attacked the philosophy of mercantilism. Smith believed that the economy operated according to three natural laws. The first was that all persons should follow their own self-interest. The second was that each person was the best judge of his own self-interest. The third was that each person working toward his self-interest would add up to the general welfare of the population.

Smith believed that the natural laws operated best when free from government interference of any type. He believed that business, education, and charity were best left up to individuals. Government should do as little as possible, existing only to provide a military and protect property. David Ricardo expanded upon Smith’s ideas by stating that due to the inevitable conflict between businessmen and laborers, workers would always be paid just enough to survive under the natural laws of the economy. Ricardo believed that if workers were paid more, they would have more children and create a surplus of labor that would result in the poverty of all workers. He concluded that workers should not attempt to change their income, because higher wages would only lead to their demise. His theory, the “iron law of wages,” held a very bleak forecast for the working class.

The upper-middle classes were quick to embrace the ideas of Smith and Ricardo. Their ideas that government nonintervention was best for the general welfare soothed the consciences of factory owners who got rich while their workers struggled to survive. The ideas of *laissez-faire* economics became very influential and delayed many badly needed reforms. While the economy grew at a rapid pace and England became a wealthy nation, many suffered in the process. For years the government ignored the problems of child labor, city slums, and an impoverished working class. Public services were nonexistent in most factory cities. Education was neglected, and England gradually fell behind in the discovery and use of new technologies.

While the ideas of *laissez-faire* economics dominated the minds of local and national leaders, the working classes became more alienated. Convinced that they were being oppressed by the factory owners in league with the government, they turned to more radical ideologies to achieve reform.



Adam Smith

Name \_\_\_\_\_ Date \_\_\_\_\_

## CHALLENGES

1. What does *laissez-faire* mean?

2. Who was the author of *The Wealth of Nations*?

3. Mercantilism was the dominant economic philosophy before laissez-faire economics. How did governments protect their industries under mercantilism?

4. What did Adam Smith propose that government should do to help the economy?

5. What functions did Smith believe were legitimate roles for government to play?

6. David Ricardo believed that workers would always be impoverished due to natural laws of the economy. What did his set of beliefs regarding worker wages become known as?

7. What types of reforms were delayed due to the belief that government shouldn't interfere?

8. What class of people were most attracted to the laissez-faire economic philosophy?

9. How did the working classes feel about laissez-faire economics?

10. Education was neglected in England due to the belief in government non-intervention. What was the long-term result?