

## **Capitalism, Free Enterprise, and Progress: Partners or Adversaries?**

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### **Foundation**

The Industrial Revolution is typically regarded as a story of capitalism, free enterprise, and progress in technology and living standards. This article attempts to disentangle the threads of capitalism, free enterprise, and progress, in the context of the Industrial Revolution, with a focus on Britain and the United States. It aims to bring some historical perspectives into the current discourse.

The paper will explore the nature of progress, the controversy of living standards, the coercion that existed at the birth of the industrial revolution, and potential alternative points of departure for historical progress. What is the relation between capitalism, free enterprise, and progress? Who benefits from them? Was the specific form that industrialism took the most beneficial of plausible alternatives?

Capitalism, free enterprise, and technological and social progress need to be unbundled from the package idea of the Industrial Revolution. A rough definition of capitalism for this purpose would be: a social system typified by 1) the control of workplaces by owners who are not laborers in the firm, 2) the direction of work to profit these owners, and 3) social hierarchies produced by these economic relations. Free enterprise could be defined as: a state of affairs in which goods and services are produced and exchanged according to consensual agreements between producers and traders. Technological and social progress means: The improvement of general living conditions and the advance of technology.

Of course all of these definitions are themselves at least somewhat contentious. Capitalism has a number of definitions, and some would contend that the mere accumulation of capital implies or even necessitates a certain social relationship. Free enterprise is also problematic. It suggests either “relatively free enterprise,” some kind of gradation, or an abstraction that is useful as a model but not fully achievable. And determining whether

specific examples of activity do or do not constitute free enterprise can also be tricky. The relationship between technological progress and social progress is not always so clear, as will be shown below. But the concepts are sufficiently clear for a useful study.

### **Progress**

The Enlightenment was a historical movement well suited to foster a culture of innovation. Enlightenment principles can be characterized by a belief in reason, and an emphasis on human capability and earthly dignity. These principles combined with the printing press and the fracturing of religious and political authority, to accelerate the progress of science and ethics in Western Europe.

### **Coercion**

It is of prime importance to examine the political context in which a socio-economic system operates. If the market functions on “higgling and bargaining” and coercion exerts significant pressure on the “higgling and bargaining,” then is the term “free market” really appropriate? And how free is enterprise in such a market?

British industrialization took place at a time in which the rulers of Europe were terrified of the French Revolution, an event whose proclamation of liberty, equality, and fraternity resonated widely among individuals who labored under the old order. Because access to land and resources was distributed according to political privilege and not occupancy and use, the masters of the productive process were able to prevent industrial and agricultural labor from living autonomous and prosperous lives.

E.P. Thompson, in his classic text *The Making of the English Working Class*, characterizes the years 1760 to 1820 as “years of wholesale enclosure, in which, in village after village, common rights are lost, and the landless and – in the south – pauperized labourer is left to support the tenant-farmer, the landowner, and the tithes of the Church.”<sup>1</sup> Enclosure of the commons severely restricted opportunities for personal autonomy, creating a more controllable workforce. This phenomenon was not unrecognized at the time. An article in *Commercial and Agricultural Magazine* in the year 1800 cautioned against distributing too much land to the laborer because,

When a labourer becomes possessed of more land than he  
and his family can cultivate in the evenings ... the farmer can  
no longer depend on him for constant work ...

Possessing the means of subsistence could “transform the labourer into a

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<sup>1</sup> Thompson, *The Making of the English Working Class*, 198.

petty farmer; from the most beneficial to the most useless of all the applications of industry.”<sup>2</sup> Though this primarily concerns agricultural, not industrial workers, the principle remains that potential employees who are well off will likely demand more compensation for their labor than those who have few other options.

The worker’s options were further restricted by legal inequities. At a time when combination acts targeted trade unions and reform organizations, large manufactures colluded with each other to cut off the power of exit from the workers’ bargaining chips.<sup>3</sup>

Such a state of affairs did not pass without resistance. Reform societies sprung up to agitate for more liberty for commoners. Jacobins and other radicals circulated subversive literature, including the works of Thomas Paine. An influential book was Volney’s *Ruins of Empire*, excerpts of which were circulated as a Jacobin tract during the 1790s. *Ruins* contains a segment dividing society among two classes of people. The majority of people “by useful labours contribute to the support and maintenance of society.” They were “labourers, artisans, tradesmen, and every profession useful to society,” and they were exploited by “a petty group, a valueless fraction,” who were “none but priests, courtiers, public accountants, commanders of troops, in short, the civil, military, or religious agents of government.”<sup>4</sup>

The state resorted to all sorts of measures to suppress radical threats to the established order. E.P. Thompson describes legal decrees breaking up reform societies, police spies, executions, and paying of mobs to terrorize reformers. Despite the repression, they continued to hold widespread public support and were admired at their trials.

Industrialization emerged from a context of coercion and social conflict.

### **The Standard of Living Controversy**

Although industrialization resulted in a tremendous increase in aggregate wealth, the benefits did not immediately reach those on the bottom of the social hierarchy. Technological improvement should lead to widespread improvements in the quality of life. However, the social structure of capitalism impeded the general improvement in living conditions.

Evidence of unequal benefits is seen in Robert Fogel’s study, *The Escape from Hunger and Premature Death, 1700-2100*. In his examination of statistics of height, mortality, and nutrition, he concludes that the great advances of the eighteenth and nineteenth centuries “brought only modest and uneven improvements in the health, nutritional status, and longevity of the lower

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<sup>2</sup> *Ibid.* 219-220.

<sup>3</sup> *Ibid.* 200.

<sup>4</sup> *Ibid.* 98-99.

classes before 1890.”<sup>5</sup> An example of his findings is that:

Data on life expectancy in Great Britain reveal that although the life expectancy of the lower classes remained constant or declined in some localities during much of the nineteenth century, the life expectancy of the upper classes rose quite sharply. From the beginning of the Industrial Revolution to the end of the nineteenth century, the gap in life expectancy between the upper and lower classes increased by about 10 years.<sup>6</sup>

Clearly the benefits of industrialization did not reach all the English people equally. As shown by examining the extensive political conflict and regime of coercion, such inequality was not a given, but a consequence of choice.

The influence of increased population density and migration on disease could be noted to explain the lack of longevity increase. But this is just another way of saying that the living conditions of the poor tended to be dangerous and unsanitary. The elimination of laboring in rural commons as a viable option meant that more people would be exposed to these conditions with less ability to improve them.

By the start of the twentieth century, longevity began to increase. By this time labor movements, increased social consciousness and valuation of production over command, a gradual accumulation of capital in lower classes, returns on previous investments in health and medicine, mutual aid organizations (including friendly societies), and accessible technological improvements allowed the benefits of industrialization to reach the lower classes to a greater extent.

It is also necessary to consider the subjective nature of living standards. Even if the factory worker could afford to consume more calories and work fewer hours than his ancestors who were agricultural workers, he might prefer working in the fresh air without foremen and stopwatches. However, the onslaught of the land monopoly and the brutal suppression of working class combination made this a less viable option.

While industrialization eventually raised living standards, it took many years for the benefits to reach those who were forced to the bottom of the social hierarchy.

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<sup>5</sup> Fogel, *The Escape from Hunger and Premature Death, 1700-2100: Europe, America, and the Third World*. 8.

<sup>6</sup> *Ibid.* 36.

### **Capitalism Versus Free Exchange**

Capitalism as a social relation can be characterized as a parasite on free exchange and scientific progress as they emerged from under the domination of state and church, a cause of distorting technological change to serve the ends of economic and political domination, and an obstacle that prevented the benefits of production from reaching everyone as evenly as they would in a comparatively undistorted free market.

John Thelwall, a prominent English Jacobin, denounced laws against the association of workers, as well as the “land monopoly,” enclosures, and “accumulation of capital,” declaring that “a small quantity of labour would be sufficient to supply necessaries and comforts, if property was well distributed.” He envisioned a society based on independent manufacturers, smallholders, and small traders, in which there existed protections for laborers.<sup>7</sup> (It would be interesting to examine the extent to which combination acts prevented the rise of co-operative business organization as an egalitarian method of scaling up independent artisan enterprises to better compete with capitalist industry.)

Because coercion left workers with few means of subsistence besides hiring out their labor for long hours, they were unable to compete against the privileged. The closing of opportunities to labor worked to the advantage of the capitalist. In order to reclaim the ability to engage in some measure of free enterprise themselves, workers had to limit the control of capitalists; in other words they had to stifle the advance of capitalism. Because investments in new technology were made by the wealthy, research and implementation of new technology largely responded to the demands of the wealthy and prioritized profitability for owners over improved labor conditions.

### **Alternative Points of Departure for the Course of History**

While it is difficult to make convincing counterfactual arguments, it is useful to discuss other possible courses of history in order to undermine arguments of historical necessity and demonstrate the relevance of the historical experience to current critiques of capitalist society.

The suppression of anti-scientific superstition and the enhancement of individual sovereignty could have provided incentives to labor freely for a better world. The technology and production methods produced by a free society would have been produced in a cultural atmosphere of comparative solidarity and an economic atmosphere of comparative egalitarianism. Instead of serfdom, starvation, and dark satanic mills, the worker could have produced in a freer workplace and lived in a freer society. A more equal rise in living standards combined with the more widespread investment in resources could have brought environmental concerns to prominence earlier.

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<sup>7</sup> Thompson, 157-160.

Commercial customs involving pre-industrial craftsmen reveal a preference for fairness and quality. E.P. Thompson describes how wages were regulated by local custom. The social prestige of the worker or notions of fair prices, just wages, or standards of craftsmanship influenced prices. Profit and value was not measured only in monetary units. However, this state of affairs should not be idealized: custom and guild associations created social hierarchies and cartelization by artisans, entrenching the privilege of some workers and limiting the mobility of others.<sup>8</sup>

But customs in pre-industrial society are valuable as alternative points of departure, as the basis for a direction of improvement, instead of an inconvenience to be replaced with more brutal hierarchy. The rise of capitalism didn't destroy a free market, but it prevented one from emerging.

Political revolutions suppressed or recuperated by authoritarian elements in Europe and the United States during the period of industrialization failed to firmly establish the liberty that could have resulted in a more egalitarian technological flourishing. While libertarian and egalitarian ideas were developing during the period of industrialization, various elites managed to keep control of society and continue its operation along hierarchical and authoritarian lines.

An emphasis on liberty, equality, and fraternity, which was popular in radicalism of the period, would have been beneficial to the commons had they been allowed to take root. In her article "Reformulating the Commons," Elinor Ostrom lists a series of factors that increase the likelihood of successful self-governing of commons by their users. Among these are trust and reciprocity among appropriators, and autonomy from external authorities. The prevalence of radical ideology could have increased trust and decreased enforcement costs, thus increasing the feasibility of self-governing commons with a minimal amount of hierarchy. Agriculture could then have been under stable control by laborers, benefitting food production, increasing the options for laborers, and enhancing the ability of workers to accumulate capital. But as it happened, the commons were stolen, laborers were left with little land, and the authoritarian political structure of the day would have regarded cooperative associations with suspicion at the very least.

### **Applicability to Modern Times**

A disentangling of the threads of capitalism, free enterprise, and technological and social progress enables one to better separate good and ill in history. A lot of the evil that people endured for the goods delivered by technology was not necessary to suffer. This opens questions about industrialization in the abstract, as well as the direction of technology. Another area that could be examined is the improvement of agricultural

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<sup>8</sup> Thompson, 235-237.

techniques in the 18th and 19th centuries, and the extent to which monopoly prevented its gains from reaching most people.

Finding alternative points of departure in the voluntary associations and common customs of history can lead to an improved ability to find alternative points of departure in today's associations and customs that can lead to a future of greater freedom.

Prosperity and progress did not require privilege. A sacrifice in living standards accompanied a sacrifice in freedom, and standards and freedom rose as the power of the master classes was upset and the benefits of technological progress were made more accessible.

### References

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Most still equate capitalism and free enterprise, even in the post-Cold War era. This is a weighty mistake with a high potential for negative ramifications in the 21st Century. A simple defining of terms points out the crucial importance of the distinction between these two brands of economics. In contrast to both capitalism and socialism, free enterprise establishes good laws and government policies that treat the rich, middle and poor the same. Some people may believe that this is the system we live under in the United States today—that the law treats all the same. Such an assumption is incorrect. Start studying Capitalism and Free enterprise. Learn vocabulary, terms and more with flashcards, games and other study tools. Free enterprise. used to describe American economy; create economy where government plays minimal role. Entrepreneur. individual who takes financial risk to create new business; important to economy. Consumer. individual who profits goods from the seller. Mixed economy. economic system consisting of a mixture of either markets and economic planning, public ownership and private ownership, or free markets and economic interventionism. Economic Freedom. A free market will ignore externalities. A profit maximising capitalist firm is likely to ignore negative externalities, such as pollution from production; this can harm living standards. Similarly, a free-market economy will under-provide goods with positive externalities, such as health, public transport and education. This leads to an inefficient allocation of resources. Most economists take a nuanced approach to capitalism. Supporting broad principles of free-market, but concerned with abuses of free markets, such as monopoly, inequality and externalities. However, some like Hayek are more passionate in support of limited government intervention and virtues of capitalism. Economists supporting the virtues of capitalism. Friedrich Hayek — The Road to Serfdom (1944). Freedom of enterprise means that there is free choice of occupation for an entrepreneur, a capitalist, and a labourer. But this freedom is subject to their ability and training, legal restrictions, and existing market conditions. Subject to these limitations, an entrepreneur is free to set up any industry, a capitalist can invest his capital in any industry or trade he likes, and a person is free to choose any occupation he prefers. It is on account of the presence of this important feature of freedom of enterprise that a capitalist economy is also called a free enterprise economy. (7) Competi