

How the Industrial Revolution Shaped Modern Capitalism

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The Industrial Revolution is widely understood as a defining period of human history. It was a period of massive change that touched every aspect of society. This paper seeks to give a broad overview of key changes that emerged during the Industrial Revolution and have shaped the modern world, focusing on economic and social spheres in the context of capitalism. The overview will include a background on the Industrial Revolution, followed by a discussion on modern economic growth. Next, the development of a middle class and consumerism will be discussed. Lastly, the crony capitalization of the era and its remedies will be outlined.

When people think of the Industrial Revolution, it conjures images of black smoke pouring out of factories and giant steel machines turning great gears. While these images are iconic, it is important to remember that the Industrial Revolution had already started prior to the popularization of production lines and steel furnaces. The mid to late 18th century saw many inventions and movements critical to the Industrial Revolution spring up even though historians commonly say the Industrial Revolution truly began around the 1830s-40s.¹ Further, this period of development is often distinguished as the first Industrial Revolution as opposed to the second Industrial Revolution that covered the late 19th century and early 20th century (where many of the classic industrial inventions would have been commonplace).² Additionally, the term “industrial revolution” was not even used until 1883 when it was introduced by English historian Arnold Toynbee.³

In addition to advancements in manufacturing and other technologies, the Industrial Revolution gave rise to social and economic developments that have been foundational to modern capitalism. Key trends during the Industrial Revolution include demographic shifts such as urbanization and the birth of the middle class. These social and demographic changes were accompanied by new economic theories that continue to guide countries striving for economic growth and wealth in modern times. Additionally, the effects and attempts to address crony capitalism continue to be reflected in modern political and economic discussions. Each of the topics mentioned above were selected because of their importance during the Industrial Revolution and their continued relevance today.

Urban Centers & Economic Growth

A major change of the Industrial Revolution was the rapid shift of societies from agrarian to urbanized living. The key contributors to this shift included the fact that a single factory could provide work for hundreds of people and that new technologies made farming more productive with fewer workers. These rapid changes gave rise to new urban centers and what economists call modern economic growth. A new economic scale had been created; never before had it

¹ [Industrial Revolution](#), History.com (2022)

² Id.

³ *Ages of American Capitalism*, Jonathan Levy (2021)

been possible to achieve the kind of growth that was seen during the Industrial Revolution. Specifically, the Industrial Revolution allowed for self-sustaining increases in per-capita income growth.⁴

Based on observations of this rapid change, economist Simon Kuznets theorized that the shift from agrarian to urbanized living is a necessary part of human societies creating long-term economic growth.⁵ This shift would become one of the key elements of Kuznets' larger theory on what modern economic growth should be. More so, Kuznets' theories have been critical to modern capitalist economics, as his ideas are still commonly used as the basis for achieving long-term economic growth in a capitalist society. Furthermore, they have been used repeatedly through history to help guide countries seeking greater economic development. For example, modern economic growth theory is the foundation of how the World Bank evaluates individual countries' economic and societal status.⁶

Economic Change and the Emergence of Consumerism

Urbanization and economic growth led to the rise of a middle class with cash ready to spend on all the newly accessible goods and services found in cities. This new middle class was birthed out of the rapid expansion of the labor market in terms of the literal increase in the number of available jobs as well as the types of jobs provided. Particularly, factories and modern businesses created intermediate positions like managers, secretaries, and accountants.⁷ These positions offered higher wages than traditional manual labor or factory jobs. In turn, this higher pay provided enough money to buy nonessential goods. Thus, this era was also the birth of one of the central pillars of a capitalist society: the middle class.

Foreshadowing both its importance to a free market and its rule in a post-industrial society, the middle class was able to engage in the new practice of consumerism. The middle class had wealth to spend, thanks in part to a substantial increase in per person income that improved their standards of living and enabled them to consider buying into recreational and educational endeavors. This was enabled both by the creation of new jobs outlined above and also by the rapid improvements to manufacturing that allowed average people to purchase previously unavailable luxuries. Economist N.F.R Craft found that British income per person rose from about \$400 in 1760 to \$430 in 1800, to \$500 in 1830, and then jumped to \$800 in 1860.⁸ Further, N.F.R Craft calculated that this rapid growth meant that 65% of people with the lowest incomes in Great Britain saw an increase of more than 70% to their average real income.⁹ Similar increases were seen in other parts of Europe and the United States.

In the U.S., two new businesses came to encapsulate this new ability to spend. The first was the development of mail order magazines, perhaps most famously was the magazine created by

⁴ Ages of American Capitalism, Jonathan Levy (2021)

⁵ [Modern Economic Growth: Findings and Reflections](#), Simon Kuznets (1971)

⁶ [Modern Economic Growth: Rate, Structure and Spread](#), Simon Kuznets (2001)

⁷ [Rise of the Middle Class](#), StudySmarter (2022)

⁸ [Industrial Revolution and Standard of Living](#), Clark Nardinelli (2019)

⁹ Id.

Richard Warren Sears.¹⁰ The second was the development of the five and dime stores. These stores not only provided goods specifically to those who were in the middle to lower class, but it offered fixed prices on all items which made transactions a lot easier since it had previously been customary to negotiate sales.¹¹ These new businesses, in combination with urban concentration and greater availability of products to buy, also benefited from the development of a standardized U.S. currency.

A standardized national currency improved the ease of doing business and helped promote consumerism. In 1862, the U.S. passed the Legal Tender Act that created our national currency, at the time referred to as greenbacks.¹² The development of a national currency benefitted the future of capitalism as it lowered transaction costs, reducing (and eventually eliminating) the hundreds of currency discrepancies that existed in the United States. Many states and even individual cities had issued their own banknotes that all traded at different values making transactions and investments precarious if operating outside of a very small locality. This in turn made conducting business easier which encouraged the already voracious industrialists' quest to extend their reach throughout the country and into new industries.

Crony Glory Days

The Industrial Revolution generated large amounts of wealth that both created the middle class, and enabled the already wealthy to gain significant power in society and over markets. This control, now deemed "crony capitalism," is still a constant concern for any free market society. Crony capitalism can be looked at as one form of special interest lobbying.¹³ However, unlike pressuring for some sort of government reform or policy advocacy, crony capitalism refers to advocacy for personal gain.¹⁴ Therefore, the term crony is used, as it emphasizes this is personal advocacy that relates to an individual person or company rather than a broader political ideal.¹⁵

Attempts to address crony capitalism gave rise to two strong reactions: government regulation and labor unions. The government response was not only the first of its kind in the U.S. but also continues to serve as the foundation to U.S. anti-trust law. Titled the Sherman Anti-Trust Act, it sought to eliminate monopolies that undermined trade and commerce across the states and the country at large by making any trust that did so illegal.¹⁶ However, this act only combatted the largest and most egregious examples of monopolization (and not always successfully). There was a void around the labor conditions for ordinary workers that the act did not cover.

Factory workers had to work exhaustive hours in dangerous facilities and were paid very little as they had no real power to combat their employers' decisions. In response, a number of labor

¹⁰ Gilded Age, Alan Axelrod (2017)

¹¹ Id.

¹² Ages of American Capitalism, Jonathan Levy (2021)

¹³ [Crony Capitalism](#), Paul Rubin (2016)

¹⁴ [Lincoln, Crony Capitalism, and Populism](#), Norman Black (2017)

¹⁵ [Crony Capitalism](#), Paul Rubin (2016)

¹⁶ [Sherman Anti-Trust Act](#), National Archives, (2022)

unions arose across the country. One of the largest and most successful was the Knights of Labor. Numbering 729,000 by 1886, this union invited all variety of “producers” (essentially any worker below a doctor or lawyer) in the country to fight against monopolization and unfair business practices.¹⁷ The Knights launched some of the largest and most impactful strikes in U.S. history, forcing employers to take note of employee demands. Despite the fact that the organization eventually dissolved, it was a pioneer for worker organization and many of the arguments raised by unions today.¹⁸

Conclusion

Modern economic growth has continued to shape capitalist economies while consumerism and cronyism are constant focal points of a capitalist society. If there is one way to describe the impact of the Industrial Revolution on modern capitalism, it would be that the era showed all aspects of capitalism at their most extreme. It was an era where the strength of a free market was left almost completely unbridled, where its greatest peaks quickly led to its greatest valleys. Thus, the Industrial Revolution may be the most critical point of analysis for our views on capitalism as it can remind us of the wealth and innovation that private ingenuity can generate while also cautioning us to avoid the pitfalls of cronyism and greed.

¹⁷ Ages of American Capitalism, Jonathan Levy (2021)

¹⁸ Id.