

Chapter 4

The Theory of Laissez-Faire

It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. – Adam Smith

Why do some men succeed in business and others fail? Why are some people rich and others poor? Why does one company develop new products, make huge profits, and remain successful while others fail? Why does one athlete become a superstar and another never makes the team? One possible answer to all these questions is that the successful are often better equipped to survive than those who fail. People who get ahead in life are usually those with both ability and the willingness to work hard. Those who fail either don't have what it takes or just don't work hard enough to get to the top.

Some people believe that life is a jungle, that the rules of the game are to compete as hard as you can, take care of yourself and not to worry about others. If you lose, you have nobody to blame but yourself.

Adam Smith and the Invisible Hand

If you agree with the ideas in this introduction, then you probably agree with the philosophy of 'laissez-faire' and the social theory of 'survival of the fittest.' Such ideas are also guiding principles of the business people who do not want the government to interfere with their actions. It is the philosophy of those who are against 'big government,' and who believe that too many rules in the business world prevent healthy, keen competition and stop progress. These are not the sentiments of people who believe in the golden rule.



Adam Smith

The words 'laissez-faire' are an abbreviation of a phrase which originally read, '*laissez-faire passer le monde de lui meme*;' 'don't interfere, the world will take care of itself.' This advice was first directed at the French government well over 200 years ago. At that time there were laws dealing with nearly every aspect of business: tanners were told when they could slaughter their cattle; weavers were told how many strands of thread must be woven into each inch of cloth. Those who broke these rules could be prevented from staying in business; and if they continued to break them, they could have a finger, hand, or even an arm amputated.

Not surprisingly, the businessmen of France felt they would be much better off if left alone and free of these ridiculous rules. Philosophers who agreed, began to write essays that advocated 'laissez-faire,' but, it was a Scotchman who made the idea of laissez-faire famous. In his book, *The Wealth of Nations*, Adam Smith argued that all restrictions on business should be removed. His book appeared in England the same year the American colonists took up arms against the country that imposed unfair trade restrictions on them.

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One of the most important ideas in Adam Smith's book, was the concept of the 'invisible hand.' Smith believed that this invisible hand would always guide the selfish acts of individuals to help the country:

[B]y working for his own private gain, the businessman must produce as much as he can, and for the lowest price. In order to sell his goods he charges very little. This will help society as a whole, even though that was not his purpose. The invisible hand thus directs selfish acts for the good of the community.

He urged trust in the invisible hand and not in the government:

[E]very person is a much better judge of what is good for him than any President, Governor or Congressman. When the government starts telling people what they should do with their money, they are telling people how to mind their own business. This will make a bigger mess than that which they tried to correct.

Survival of the Fittest

The philosophy of laissez-faire was given unexpected support from a famous English scientist, Charles Darwin. Darwin's book, *The Origins of the Species*, appeared in 1859. It made quite a stir because it argued that mankind had descended from the apes by a process known as evolution. Darwin claimed evolution worked because more animals in any species are born than can possibly survive. Only those whose particular features allow them to adapt to their environments live long enough to produce offspring which inherit the characteristics that made their parents more fit. The giraffe, for instance, developed his long neck because short-necked giraffes could not reach the leaves from the top of trees. The 'fittest' giraffes, therefore, were those with long necks, and their long-necked children, too, would be more likely to live and reproduce. According to some scientists the same process produced human intelligence. The less capable or 'unfit' cavemen died; those who could use their intelligence lived and produced more children.

Charles Darwin never intended to apply his theory of evolution by 'natural selection' to human society. Others, philosophers rather than scientists, however, could not resist the temptation and were quick to adapt the theory of natural selection and survival of the fittest to explain social interactions. These men were called Social Darwinists, and their philosophy was called Social Darwinism. Charles Sumner, who became America's leading philosopher of Social Darwinism argued:

*Competition, therefore, is a law of nature. Nature is entirely neutral. She gives her rewards to the fittest. Men get from nature just what they deserve; what they have and enjoy is always a result of what they can and do. This is the system of nature. If we do not like it and try to change it, there is only one way we can do it. We can take from the better and give to the worse. We can give the rewards to those who have failed in life. This might lessen the inequalities. But, it shall favor the survival of the less fit, and shall be accomplished by destroying liberty, and this would be foolish.*⁵

American businessmen quite naturally were attracted to the philosophy of laissez-faire and survival of the fittest. They saw their own success in business as a result of the laws of nature. Businesses destroyed in competition and men unable to support their families were considered as unfit for survival as the short-necked giraffe or the clawless tiger. Helping losers instead of rewarding winners, according

⁵ Quoted in The College of the University of Chicago Social Sciences 1 Staff ed., *The People Shall Judge*, Vol II, University of Chicago Press, Chicago, 1949, p. 85.

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to social Darwinists, would only encourage the lazy and perpetuate the traits that did not equip people for survival. Thus government help, no matter how well intended, would only weaken society. Using the philosophy of 'laissez-faire' and 'survival of the fittest,' John D. Rockefeller told his Sunday school class that Standard Oil was:

*merely an example of survival of the fittest. The American beauty rose can be produced in the beauty which brings joy to those who see it by sacrificing the early buds which grow around it. This is not an evil tendency in business. It is merely the working out of the law of nature and the law of God.*⁶

A Contrary View

One of the early critics of the philosophy of Social Darwinism was Henry Damerest Lloyd, author of *Wealth Against Commonwealth*. Writing in 1894, Lloyd claimed that:

*"There is no hope for any of us, but the weakest must go first," is the golden rule of business. There is no other field of human associations in which any such rule of action is allowed. The man who should apply it his family or his citizenship this "survival of the fittest" theory as it is practically professed and operated in business would be a monster and would be speedily made extinct, as we do with monsters. To divide the supply of food between himself and his children according to their relative powers of calculation, to follow his conception of his own self-interest in any matter which the self-interest of all has taken charge of...would be a short road to the penitentiary or the gallows. In trade men have not yet risen to the level of the family life of the animals. The true law of business is that all must pursue the interest of all. In the law, the highest product of civilization, this has long been a commonplace. The safety of the people is the supreme law.*⁷

Laissez-Faire and Survival of the Fittest on Trial

The ideas preached by Adam Smith, Charles Sumner, and John Rockefeller could be backed with some important statistics. During the great age of laissez-faire, between 1860-1915, production in the United States increased 1200%. In this period, America moved from a second rate industrial power, behind England and France, to the world's leading economic giant. By 1915, America produced over one-third of the world's steel and built almost one half of its railroads. During this period, fortunes were made in oil, steel, meatpacking, shoe making and hundreds of other industries. Businessmen who had started with hardly a penny, rose to command industrial empires richer than many countries. Poor peddlers became millionaires; hard working immigrants made fortunes; workers rose to become bosses; and the sons of peasant farmers became the fathers of successful lawyers, doctors, salesmen and accountants. Although the government of the United States aided businessmen with protective tariffs, hard money policies, subsidized railroad construction, an open immigration policy, and some financial encouragement, it did not restrict industry with burdensome regulations.

Success, however, was not uniform. While some millionaires spent fortunes in wild displays of their wealth, millions went to bed hungry every night. Millions were killed or maimed in industrial accidents. Farmers were driven off their lands, immigrants were unable to get jobs, residents of cities could not educate their children, and youngsters aged 10 and 11 were forced to work for a few cents per

⁶Quoted in Richard Hofstadter, *Social Darwinism in American Thought*, Beacon Press, Boston, 1955, p. 43.

⁷ Quoted in *The College of the University of Chicago Social Sciences 1* Staff ed., op. cit., p. 72.

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hour. Forests were stripped, waters polluted, and natural resources were wasted and depleted; politicians were bribed, workers were underpaid, and the standard of living for the average man hardly improved.

Those who did not profit from laissez-faire, the so called 'unfit,' as well as socially conscious members of the middle class, clergymen, teachers, lawyers, and even many businessmen, did not agree with this philosophy. They eventually exerted enough pressure to introduce government regulations and welfare legislation. This unit puts the philosophy of laissez-faire and the survival of the fittest on trial in the person of John D. Rockefeller and the Standard Oil Corporation.

Suggested Student Exercises:

1. The theories of laissez-faire and survival of the fittest are really aspects of the same philosophy. Explain each and how the two are related.
2. Do the philosophies of laissez-faire and survival of the fittest explain why John D. Rockefeller succeeded in Cleveland, and was his success good for the oil industry and the American consumer?
3. Which of the following statements best illustrates your view of the philosophies of laissez-faire and survival of the fittest:
 - a. While they might seem harsh, in the long run these philosophies led to a more developed and prosperous society. Following these ideas will continue to lead to further prosperity while helping the less fit will not.
 - b. Maybe this philosophy worked well during the late 19th and early 20th century, but it is not the way to move into the 21 st century.
 - c. These philosophies, though they may contain a grain of truth, are based on and encourage selfish, anti-social behavior which primarily helps those who are in a position to take advantage of others.