

# Chapter 14

## Mandeville and the Markets: An Economic Assessment

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**Abstract** This article analyses the debate that occurred in England in the second decade of the eighteenth century regarding the possibility of a shortage of demand for commodities in general. It identifies the points of contact of such exchanges with a controversy that, 100 years later, would lead to emergence of the so-called Law of Markets. Initially, it presents the opposite stances respecting parsimony and luxury consumption in the context of the mercantilist thought. Bernard Mandeville's views about the effects of vice and virtue on the stability of purchasing power are examined afterwards. Following this, the criticisms of Mandeville's ideas by George Bluet, Francis Hutcheson and George Berkeley are considered. Finally, we evaluate the extent to which the debate anticipated some crucial propositions put forward by the classical school of economics in the early nineteenth century.

**Keywords** Vices • Virtue • Demand • Savings • Investment

### 14.1 Introduction

The famous debate about the possibility of commercial crises that took place in England in the 1820s, known as the general glut controversy, would enter the history of economics annals as one of the highest points of nineteenth century political economy. The dispute originated with the concern of some writers, notably the Reverend Thomas R. Malthus, that a rapid accumulation of capital could create a universal surplus of goods with no corresponding demand. The phenomenon would be rooted in an insufficiency of consumer spending, driven by an excessive expansion in savings, which was deemed essential to an increase in investment. It was feared that the additional supply of goods flowing from the newly created capital stock would be unsellable at the going prices, owing to the previous fall in consumption outlays. Based on this diagnosis, Malthus advocated, among other things, the functionality of luxury expenditures by landowners as an alternative

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source of demand to counter-balance the slackening in sales and thus avoid a general glut (Malthus 2004 [1820], 301–31). Oblivious to such concerns, David Ricardo, Jean-Baptiste Say and James Mill, among others, argued that economic crises of major proportions were impossible because the purchasing power generated by the production process would be automatically spent on consumer goods or on investment in productive labourers and fixed capital. They agreed, therefore, that no artificial stimulus to demand was necessary beyond the one generated by the capital accumulation process in itself, a proposition that would be designated as the Law of Markets or, simply, Say's Law (Ricardo 2004 [1817], chap. XXI; Say 1850 [1803], B. I, chap. XV; James Mill 1808, chap. VI; for modern views of the subject, see Kates 1997; Baumol 1977; Sowell 1972, 79–145).

Going back further in time, we find that the controversy over the possibility of a lack of aggregate demand had distant antecedents in England. In 1705, Bernard Mandeville published his poem, *The Grumbling Hive: or Knaves Turn'd Honest*, where he praised vice and pomp as sources of the prosperity of a beehive, a picturesque allegory of the society of his day. This work, despite its originality, would go unnoticed in literary circles. Some years later, however, in 1714, a new edition of the poem was issued, with a comment by Mandeville on the origin of moral virtue and extensive explanatory notes on the meaning of the poem. Now called *The Fable of the Bees, or Private Vices, Publick Benefits* (hereafter, *The Fable* or *FB*), the book would again fail to capture widespread attention. However, in 1723, with a revised text, supplemented by two polemical essays dealing, respectively, with charity schools and the nature of society, the volume aroused such a wave of indignation among the critics that the unexpected publicity, ironically, led to five further editions of the work in less than a decade, a record at the time (Kaye 1924, ix–x; Stafford 1997, xii).<sup>1</sup> Among the long list of sermons, pamphlets and other treatises that appeared after the second edition of *The Fable* and directed against the content of the book – the majority, of moral or religious inspiration<sup>2</sup> –, some sought to directly refute the economic doctrines developed in the book. In this latter group are the works by the lawyer George Bluet, the philosopher Francis Hutcheson and the bishop George Berkeley. As we shall see, such attacks on Mandeville and his reaction to them produced a fruitful collision of ideas that, in many important respects, would foretell the controversy over the markets' operation a 100 years later.

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<sup>1</sup>In the eighteenth century, the original volume of *The Fable* had editions in 1724, 1725, 1728 and 1729. In the latter year, Mandeville launched the second part of the book, containing a foreword and six dialogues, published in two separate editions in 1730 and 1733. The two volumes were released together in the years 1733, 1755, 1772 and 1795, and translations into French and German appeared in 1740 and in 1761, respectively (Kaye 1924, xxxii–vii).

<sup>2</sup>A compilation of all written material contesting Mandeville's ideas published throughout the eighteenth century is found in Stafford (1997).

## 14.2 The General Context of the Debate

The first decades of the eighteenth century, when Mandeville's main works were published in England, fall within the phase of transition from mercantilism to liberalism. More precisely, it was during that evolutionary stage of economic thought that the latent contradiction between the belief in free trade, understood as the primary source of social wealth, and the regulation of commercial activities, implemented to strengthen the power of the state, came to the fore in full force (Grampp 1962, 61–89; Heckscher 1943, 757–64). The conflict between these two strands of thought would be manifest, like other issues, in the incompatibility between the distinct positions on the economic role of sumptuary expenses, widely recorded in the literature of the period. To better figure out the matrix of this divergence, it must be recalled here that the mercantilist concept of wealth encompassed the accumulation of objects with the capacity to store value and having great durability, which made the precious metals the most suitable vehicle for preserving one's possessions. The practice of frugality was seen as essential to the enrichment of society, a recommendation that, moreover, was often shrouded in precepts of an ethical or religious nature (Heckscher 1943, 637–40; Viner 1937, 26–32).

The main objections to sumptuous consumption arose from two sources: the first one, from the alleged weakening of the productive potential of individuals, in making them lazy, careless and unprepared; and, second, from the fact that luxury spending almost always went toward foreign exotic items, meaning thus an increase in imports and the loss of precious metals through national boundaries. Obviously, in such conditions, the country's trade surplus, so valuable in the eyes of mercantilist authors, would be sacrificed (Johnson 1960, 289–97). By way of illustration, Josiah Child, in enumerating the causes of Holland's prosperity in the seventeenth century, praised its "parsimonious and thrifty living", considered by him as something absolutely "extraordinary" (1668). Thomas Mun, more caustic, energetically reproved the excessive consumption of the Britons for preventing the Kingdom from achieving a higher level of exports:

The summ of all is this, that the general leprosie of our piping, potting, feasting, fashions, and mis-spending of our time in idleness and pleasure (contrary to the Law of God, and the use of other nations) hath made us effeminate in our bodies, weak in our knowledge, poor in our Treasure, declined in our valour, unfortunate in our enterprises, and contemned by our enemies. (Mun 1664, chap. 19)

Such preaching in favour of virtuous behaviour, however, faced stern opposition long before Mandeville. On the European continent, especially in France, the first decades of the seventeenth century saw the development of the Jansenist theological movement, which professed the irretrievable downfall of man after the original sin, as well as man's ultimate inability to achieve redemption through a life of renunciation. Behind every meritorious action, as these religious authorities proclaimed, selfishness and self-interest were hidden. The Jansenist tradition would meet with a favourable reception, sometime later, in the works of French moralist philosophers such as François de La Rochefoucauld, Jean de La Fontaine and Pierre

Bayle, who portrayed the individual as a being fully controlled by passions and insensitive to reason. In the writings of these authors, all expressions of solidarity are reduced to simple disguises of the most ingrained feelings of self-love and pride. Insistent calls to resist temptation, they asserted, were incompatible with man's natural propensities because the harshness of existence could only be relieved in worldly pleasures (Horne 1978, 19–31; Kaye 1924, xcvi–cv). Rochefoucauld, for instance, condensed this line of thought in the following maxim: “Vices enter into the composition of virtues as poison into that of medicines. Prudence collects and blends the two and renders them useful against the ills of life” (Rochefoucauld 1871 [1665], 23).

Scepticism about the vaunted advantages of virtue would not be confined to France. Simultaneously, in England, Thomas Hobbes proclaimed the primacy of appetites in determining human behaviour, making desires and strong passions the fundamental sparks of resolute action. At the same time, Hobbes despised temperance because it acted as a disincentive to individual effort. “Frugality, though in poor men a virtue, maketh a man unapt to achieve such actions as require the strength of many men at once”, wrote Hobbes, to which he added, “for it weakeneth their endeavour, which is to be nourished and kept in vigour by reward” (Hobbes 1999 [1651], 88). At the end of the seventeenth century, however, the defence of luxury spending by certain British authors assumed a less psychological and a more markedly economic tone. Interested in the customs revenues to finance the British royalty – the only Crown income free from rigid parliamentary control – Tory thinkers such as Dudley North and Nicholas Barbon challenged the notion of the intrinsic value of precious metals while explicitly advocating the importance of a strong demand for superfluous articles in promoting businesses and employment (Ashley 1987, 335–71). Barbon, in one section of his opusculum, noted incisively: “The use of trade is to make, and provide things necessary or useful for the support, defence, ease, pleasure, and pomp of life”. In addition, he even observed: “It is not necessity that causeth the consumption, Nature may be satisfied with little; but it is the wants of the mind, fashion, and desire of novelties, and things scarce, that causeth trade” (Barbon 1934 [1690], 21, 35). The following year, North also made known his unconditional agreement with this provocative conception of the economic process: “The main spur to trade, or rather to industry and ingenuity, is the exorbitant appetites of men, which they will take pains to gratifie . . . for did men content themselves with bare necessaries, we should have a poor world” (North 1691, 27).

### 14.3 Avarice and Luxury in Mandeville

As Mandeville's speculations on virtue and vice are scattered throughout his writings, interspersed with moral and philosophical ramblings about man and society, the exact content of his effective contribution to the evolution of economic thought has been subject to conflicting readings. He tends to be classified as either a

proponent of individualism or as a typical mercantilist preacher.<sup>3</sup> For our purposes, however, it is sufficient to note that these disparate views stem from the fact that Mandeville's work is based on two central assumptions that lend support to both interpretations, namely: (i) individuals are driven by a complex of passions, always seeking their self-interest; and (ii) the State, through a proper regulation of such passions, especially pride and shame, induces people to perform acts consistent with the public interest (Rosenberg 1963). Indeed, Mandeville is categorical in describing man as an "extraordinary selfish and headstrong, as well as cunning animal", adding yet that it would be "impossible by force alone to make him tractable". In order to tame such impulses, he explains, lawmakers would have discovered in adulation "the most powerful argument that could be used to human creatures" (*FB I* 1992, 41–43). Bearing in mind this unique perspective on the relationship between the individual and society, we will examine how Mandeville constructed his spirited defence of luxury consumption.

In repeatedly addressing the issue of sumptuary expenses, Mandeville was keen to stress its vital importance as a source of employment and livelihood for various professional groups. In one of many passages in *The Fable* in which this subject is dealt with, he considers the situation of a hypothetical merchant involved in the export of cereals and fabrics and in the acquisition of wines and liquors from abroad. Such imports, clarifies Mandeville, in addition to providing the resources with which foreign countries finance their demand for domestic manufactured goods, would not only favour maritime commerce but also increase the national customs revenue. However, the need for these purchases abroad would ultimately be rooted in the licentiousness and drunkenness of the population. Despite the widespread recrimination of such vices, they would have the felicitous property of setting in motion an entire network of honourable people involved in the circulation and sale of alcoholic beverages within the country. At this point, it is useful to transcribe the words in which Mandeville put forward his case on this particular matter:

It may be said, that virtue is made friends with vice, when industrious good people, who maintain their families and bring up their children handsomely, pay taxes, and are several ways useful members of the Society, get a livelihood by something that chiefly depends on, or is very much influenc'd by the vices of others, without being themselves guilty of, or accessory to them, any otherwise than by way of trade, as a druggist may be to poisoning, or a sword-cutler to blood-shed. . . . The same may be said not only of Card and Dice-makers,

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<sup>3</sup>Kaye (1924, xciv–cii) considers the uncompromising defense of luxury spending, free trade and *laissez-faire* as Mandeville's main economic legacy. Hayek (1948), in his turn, credits Mandeville as the authentic precursor of individualism. More recently, Jack (1976) and Dumont (1975) situate the originality of *The Fable* in its ability to identify the contradiction between the moral recommendations of society on the one hand, and the unrestricted pursuit of material wealth on the other. Landreth (1975), following Heckscher (1943, 566–67, 734–35 *passim*), defines Mandeville as an unconditional mercantilist, interested, first of all, in ensuring the growth of production by the subordination of the individual to the State. The inherent difficulty in such classifications is well illustrated by Chalk, who, in a first article (Chalk 1951), shares with Kaye and Hayek the view of Mandeville as an individualist thinker, a judgment reworked later (Chalk 1966) in favor of the recognition of the mercantilist positions of the Dutch author.

that are the immediate ministers to a legion of vices; but of mercers, upholsterers, tailors, and many others, that would be starv'd in half a year's time, if Pride and Luxury were at once to be banished the nation. (FB I 1992, 85 – emphasis in the original)

If this were everything Mandeville had to say about luxury spending, there would be little to add with regard to his contribution to the progress of economic ideas. Certainly, his views were not new in the literature, given that many authors had previously emphasised the connection between the facilities for marketing products and work opportunities. When translated into practice, the stress on employment creation led, in most cases, to the view that raw materials, instead of being exported in their crude state, must be manufactured within the country to obtain their maximum values as finished products. Imports, in turn, should be produced internally whenever possible. Thus, through the enlargement of the trade surplus, as the mercantilists writers insisted on, the increasing availability of precious metals would stimulate the demand for domestic production and, *a fortiori*, the crafts of the country's labouring classes. On the other hand, it must also be remembered that the recurring concerns about the plight of workers were unrelated to their personal wellbeing. Since labour was viewed just as one element of production, it was generally recommended that wages should be fixed at the subsistence level in order to keep low the costs of the exporting activities and force the workingman to constant exertion, depriving him of any incentive to idleness (Furniss 1957, 39–74; Gregory 1921).

The ability of vice to provide the livelihood for a large segment of the population, often taken as Mandeville's central message is, strictly speaking, nothing more than an aspect of his economic analysis. Indeed, his defence of luxury spending is more finely elaborated – although unfortunately, seldom noted in the literature – covering the crucial problem of the conditions underlying the stability of aggregate demand. Let us examine this issue more carefully. Any increase in frugality, Mandeville observes, would immediately occasion a reduction in demand for the services of tradesmen and manufacturers. The negative impact of an increased willingness to save, however, would not be confined to the unemployment of a restricted category of workers since it would spread itself to many related activities. Thrift, once adopted as the standard of conduct by the society, would lead, among other things, to a decline in purchases of new houses and, consequently, “three parts in four of *masons, carpenters, bricklayers*, etc. would want employment; and the building trade being once destroyed, what would become of *limning, carving*, and other arts that are ministering to luxury” (FB I 1992, 223 – emphasis in the original). A nation of honest and frugal people, Mandeville tells the reader, would be indeed a poor society, lacking productive employment for its inhabitants. The parsimony of the Dutch, he also observes, much praised at the time as the main cause of the opulence of their country, merely reflected the need to fund the gigantic tidal containment works in their territories.

Given that savings promoted only economic backwardness, luxury spending was indispensable to put back into active circulation the funds subtracted from the markets by the tireless efforts of the thrifty, for the only role of money, as Mandeville

understood it, was to pay the wages of the working people. He clearly realised, therefore, that if the acquisition of sumptuary items were confined to the limits of each individual's income, it would fail to neutralise the negative consequences of parsimony on employment opportunities. This is the ultimate reason that leads him to state the advantages derived from the theft of a miser, when his economies are thrown back into the monetary circuit, or even the squandering promoted by a prodigal heir, who quickly dissipates his benefactor's fortune (*FB I 1992*, 87, 104).

It should be emphasised here that, in *The Fable*, the economic utility of luxury relates to its power as an antidote to greed and avarice or, in more modern language, to its capacity to preserve the society's purchasing power. This crucial role Mandeville assigns to luxury – thus anticipating the argument that would serve as a counterpoint to the Law of Markets in the next century – implies that sumptuary expenses, to have real significance, should extrapolate the current income of individuals to avoid a crisis of underconsumption. Ostentation or, for that matter, any other reproachable category of spending *per se*, does not possess any intrinsic quality that, in purely economic terms, makes it preferable to other types of expenditure. To be more precise, it becomes meaningful only when it counterbalances the opposing vice, that is, avarice.

The most representative example of this paradoxical symbiosis is provided by Mandeville in his story of the young spendthrift Florio who, anxious to emulate the standard of living of his wealthy friends, goes to the miser Cornaro, who alone is willing to lend him money – though at a high cost – to fund the profligacy of this improvident debtor: “Where would *Cornaro* ever have got such a prodigious Interest, if it was not for such a fool as *Florio*, who will give so great a price for money to fling it away?”, Mandeville asks, immediately adding: “And how would *Florio* get it to spend, if he had not lit of such a greedy usurer as *Cornaro*” (*FB I 1992*, 102). In a clear tribute to Rochefoucauld, Mandeville's reflections on prodigality contain the following illuminating fragments:

Avarice, notwithstanding it is the occasion of so many evils, is yet very necessary to the Society, to glean and gather what has been dropt and scatter'd by the contrary Vice. Was it not for Avarice, Spendthrifts would soon want materials; and *if none would lay up and get faster than they spend, very few could spend faster than they get.* . . . I look upon Avarice and Prodigality in the Society as I do upon two contrary poisons in Physick, of which it is certain that the noxious qualities being by mutual mischief corrected in both, they may assist each other, and often make a good medicine between them. (*FB I 1992*, 101, 106 – emphasis added)

All the strength, but also the weakness, of Mandeville's economic rhetoric lies in this very point. The force of his argument comes from his awareness, albeit in a rudimentary way, of the depressive effects that avarice or, in a broader sense, savings, exerts on the economic system. The direct impact of frugality appears in the deficit of sales opportunities for domestic production, with poverty and unemployment of the workforce being the inevitable consequences. Thus, for a complex society formed by individuals with different inclinations and characters, Mandeville properly identifies the crux of the problem when he proclaims aloud the necessity, for the proper functioning of the economic organism, that every penny saved be

replaced in the active circulation by an equivalent deficit spending somewhere else in the system. That said, however, it should be observed as well that Mandeville's solution fails exactly in assuming that only the consumption of luxuries or of vicious things could perform this function, as if this kind of expenditure were the only one capable of inducing an individual to spend beyond his regular income. It is on these contradictory ideas regarding luxury expenditure that Mandeville's critics, to whom we now turn our attention, would focus their criticisms.

#### 14.4 Bluet and the Roots of Classical Orthodoxy

Appearing in 1725, *An Enquiry Whether a General Practice of Virtue Tends to the Wealth or Poverty, Benefit or Disadvantage of a People?*, authored by a young lawyer named George Bluet, was one of the more extensive and meticulous contemporary critiques of Mandeville. In the preface, the author describes the characterisation of virtue in *The Fable* as "monstrous", proposing to fully refute the supposed utility of villainy and vice. Each country's wealth, according to Bluet's definition, comprises the soil and everything that can be extracted from it, either in the form of staple goods, conveniences or ornaments, along with the gains obtained from trade. However, because the most basic needs are approximately equal for all people, the actual wealth of a society is determined by its greater or lesser access to the comforts of life. Differences between countries in the provision of land and natural resources, on the other hand, induce them to exchange with each other their respective production surpluses. In view of this, Bluet considers that only the activities directed to improve the soil, to enhance the value of its produce or to promote trade in general could create wealth. He concludes then that all remaining professions constitute a burden on the community, invariably leading to waste: "By the help of these hands [employed in agriculture, manufacture and commerce] then, the society will be as rich as it can be, and no sort of labour that does not contribute to one of those purposes can add at all to their wealth" (Bluet 1997, 242).

The disappearance of the occupations associated with vice as a result of the diffusion of virtue and honesty among the inhabitants of a country would not entail, according to Bluet, any weakening in the economic power of society. The provisions for the sustenance of the individuals who became unemployed by a transformation of this nature would continue to exist, but with one key difference: under the new conditions, the same workers could still be fed after their allocation to activities linked directly to the production of wealth. There would never cease to be opportunities for the better use of the labour displaced by a deficiency of demand for locks, padlocks or walls when assaults on property ceased altogether or, going a step further, when all other types of vice disappeared. The reason was that no country would lack areas that could be better cultivated, while the possibilities for the enhancement of goods in general would be virtually unlimited. "In the first place, there never was yet that country in the world where every part of the soil was so completely improved as not to be capable of much further improvement",



Bluet notes, complementing that “the skill and labour that might be employed in the improvements of commodities or in adding to the elegancies of life is almost infinite” (Bluet 1997, 244).

The universal practice of honesty and virtue would not only fail to generate poverty, as held by Mandeville, but, on the contrary, it would allow for a significant gain in social wealth due to the use of sterile workers in genuinely productive functions. To illustrate his point, Bluet uses the example of a sheep breeder forced to build fences and employ shepherds to protect his flock against wolves. Bluet then asks: if these predators were suddenly eliminated, would it not be a blessing for the breeder? Yes, he answers, for the laid-off workers could then be contracted to the development of other parts of the property, generating greater profits for their employer. Similarly, criminals and looters could be considered the wolves of society, and all decent men would certainly be grateful if such outlaws ceased to exist. In short, there could never be an absence of demand for the services of the workers made redundant after the spread of virtue across the society. Unlike what Mandeville prophesied, investment opportunities would not face any limits, and wealth could actually be enlarged in the same rhythm as probity finds shelter in the hearts of men:

There could be no want of employment then, supposing this great change [to virtue] to be ever so sudden, and that a miracle intervened to effect it at once. But this is setting the present question in a very improper light. When this is applied to practice, . . . the change must be supposed to be *gradual*; and then it will appear still plainer that there would necessarily arise a succession of new trades, or a greater number of the present trades that contribute to the ornamental parts of life, in proportion as the trades in providing against roguery grew useless and wore off. (Bluet 1997, 244)

The most notable aspect of Bluet’s reasoning lies in his ability to anticipate, even without mastering the concept of capital, the central propositions that in the future would be the cornerstones of the classical theory of accumulation, as formulated by Adam Smith, David Ricardo and John Stuart Mill (Corry 1962, 14–25). First, he emphatically argues that increases in social wealth depend on the existence of prior savings held by individuals. The more is consumed in a given period, the less is available to be used in activities related to subsequent expansion of the national supply of commodities. All categories of consumption not directly linked to production, therefore, would reduce the growth potential of the economy, an idea that foreshadows the famous classical distinction between “productive” and “unproductive” labour. With regard to this particular point, Bluet expressly states: “In this sense of the word, the luxury of one age affects the future ones as certainly and necessarily as the extravagance of a *father* makes the *son* poor, or as the excess of expense 1 year produces a greater scarcity *the next*” (Bluet 1997, 266 – emphasis in the original).

Second, in the same chapter, we find the equally crucial proposition that production can never be constrained by a lack of demand, since the eradication of luxury spending would immediately be counter-balanced by a concomitant increase in the expenses to improve the conditions of supply in the economy as a whole. This conjecture should be understood, in the context of the time, as a primitive exposition of the process of capital accumulation, especially in the form in which

it would later come to life in the writings of classical authors, that is, through the unconditional acceptance of the postulate that all savings are invested. When criticising Mandeville's thesis on the usefulness of vice and misfortune in sustaining employment, Bluet refers to the situation of the Dutch to support his reasoning, in a kind of rhetoric that would later provide the basis for Say's Law:

Suppose yet further that such hands [employed in the repairing of dykes] were deprived of their present employment ever so suddenly, that Providence should in one night's time raise barriers against the sea, that were to last as long as the world in itself, in all probability, these wise rulers would not consider such a miracle as a national misfortune, but would find out ways enough to employ those hands who now work in their dikes, especially when, as the author [Mandeville] tells you, in some of their provinces there is *abundance of ground lying waste* for want of employment. (Bluet 1997, 246–47 – emphasis in the original)

Let us now examine how others argued against Mandeville in addressing this issue, i.e., the role of luxury spending in the optimal functioning of the economy.

## 14.5 Hutcheson and the Ascendancy of Morals over the Economy

Francis Hutcheson, a key figure of the Scottish Enlightenment<sup>4</sup> and one of the most influential thinker in the formation of Adam Smith's economic doctrines, would be the most relentless opponent of Mandeville. In a series of three letters to the *Dublin Journal*, published in February 1726, Hutcheson expresses for the first time his displeasure with the suggestion that luxury spending benefits the public, a concern that would resurface in Hutcheson's writings throughout his life. Despite his determination to refute Mandeville's theses, the economic reasoning he used to achieve this goal turned out to be inferior to that presented earlier by Bluet, as we shall see below.

Hutcheson begins his offensive against the alleged public utility of vice by questioning the very concept of luxury employed in *The Fable*. Individual happiness, he explains, in addition to requiring the fulfilment of basic material needs (appetites) and personal desires (the affections or passions), involves sincere concern for the collective welfare. Because the fulfilment of all aspirations is an impractical task, men would do better if they could soberly enjoy the objects of their satisfaction, consuming them to the extent of their contribution to a healthy earthly existence. The supreme good to which a person could aspire would consist of the esteem and affection for one's fellow human beings, along with reverence for God and trust in His purposes. But the love of family, country and friends, although the primary focus of concern for each individual, should not prevent or make condemnable the appreciation of the beauty contained in architectural masterpieces, music or poetry. Since mankind abandoned the caves, and agriculture enabled people to

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<sup>4</sup>Regarding the Scottish Enlightenment, see Verburg (1991, 38–56) and Bryson (1945, 1–29).

turn to manufacturing and mechanical crafts, the continual progress in the arts and refinements of life ought to be viewed indeed as a symptom of wealth and public happiness. “If vice be the opposite to virtue”, Hutcheson ponders, “we may easily conclude that the utmost improvement of arts, manufactures or trade is so far from being necessarily vicious, that it must rather argue good and virtuous dispositions” (Hutcheson 1997, 394).

However, if most of what Mandeville consecrated as vice might be interpreted as “virtuous dispositions”, what can be said then about luxury spending? In his second letter, Hutcheson offers an answer by stressing the relativity of the concepts of intemperance, pomp and pride, as none of these can be weighed, measured or added. In the case of such human propensities, he remarks, it is necessary to take due account of the proportion between means and circumstances. Food, clothing or architecture of any style or sophistication should never be described as an absolute evil. The designation of a particular type of consumer good as luxurious or extravagant is subject to both the physical constitution and the richness of each person. Ostentation, properly understood, only encompasses consumption that is excessive, i.e., beyond what is consistent with one’s own wellbeing or in an amount superior to the individual’s income. Consequently, according to Hutcheson, common sense was to set the limits of worldly pleasures and to confine the expenses involved therein to every citizen’s current earnings:

If then in each constitution, station or degree of wealth a man of good sense may know how far he may go in eating and drinking or any other expenses, without impairing his health or fortune, or hindering any offices of religion or humanity, he has found the bounds of temperance, frugality and moderation for himself; and any other who keeps the same proportion is equally temperate, though he eats and drinks or spends more than the other. (Hutcheson 1997, 396)

After removing from vices almost all derogatory connotations attributed to them by Mandeville, Hutcheson acknowledges that the suppression of luxury, even when limited to what might be considered excessive spending, would nevertheless mean a decline in demand. And this gap would need to be filled by a different type of expenditure to support manufacturing and encourage trade. Hutcheson’s solution to this critical economic problem, presented at the point where his analysis reaches its apex, is, to say the least, disheartening because he fails to transcend the realm of moral philosophy. From the point of view of the individual, Hutcheson suggests that a life of restraint and prudence would be longer and therefore bring about greater demand over time than a disorderly and generally shorter life. His confidence in behaviour of such kind, however, is not quite strong, as he also argues that, by restraining personal impulses and redirecting personal expenditures to better meet the needs of their families, households could achieve greater comfort and protection. In the case of wealthy gentlemen, to whom such a recommendation would be senseless, they should lend their savings free of charges to their less fortunate friends, enabling the latter to enjoy the pleasures of modern society that otherwise would be denied to them. “Unless therefore all mankind are fully provided not only with all necessaries, but all innocent conveniences and pleasures of life it is

still possible, without any vice, by honest care of families, relations and any worth persons in distress to make the greatest consumption” (Hutcheson 1997, 399).

Three decades later, in his *System of Moral Philosophy* (1755), Hutcheson uses similar reasoning when investigating the likely consequences of a reduction in the consumption of luxury goods:

And what if men grew generally more frugal and abstemious in such things? More of these finer goods could be sent abroad: or if they could not, industry and wealth might be equally promoted by the greater consumption of goods less chargeable: as he who saves by abating of his own expensive splendour could by generous offices to his friends, and by some wise methods of charity to the poor, enable others to live so much better, and make greater consumption than was made formerly by the luxury of one. (Hutcheson 1755, 320)

It is clear, therefore, that Hutcheson addresses the problem of aggregate demand through a strictly moral appeal, which can be summed up in one plain formula: decreased appetites, increased affections. Or, put differently: less personal spending, more expenditures with fellow human beings. Although some authors (Thweatt 1979; Taylor 1965, 106) claim that we find here a primitive formulation of Say’s Law, this interpretation is somewhat exaggerated. The reason is straightforward. Hutcheson’s analysis rests almost entirely on an improbable ethical prescription: that every individual able to save should do so because such an attitude is advantageous not to himself but mainly to other people. In summary, by resting the fate of the economic system on the grandeur of the human soul, Hutcheson shows his being unaware of the crucial missing link in the whole argument, so deftly presented by Bluet, namely: that parsimony is useful to society in serving, first of all, the interests of those who carry it out. In more objective language, savings are advantageous by the circumstance that it provides an economic – and not just a spiritual – gain to frugal people, embodied in the profit earned through the productive investment of the laid away income. Under such conditions, as the classical economists would further argue, a country was to reach the greatest possible growth of its national dividend and of employment opportunities within the national economy.

## 14.6 Bishop Berkeley and the Minute Philosophy

In 1732, the Irish empiricist philosopher and bishop of the Church of England, George Berkeley, published his *Alciphron or the Minute Philosopher*. In the second of the book’s seven dialogues, he launches an onslaught against what he believes to be the true ideas of Mandeville, whom he deprecates as a free-thinker or a minute philosopher (in the bishop’s definition, one who worships the material world and denies the eternity of life). Berkeley’s economic critique is included here not for its originality, which left much to be desired, but because it is the only one to have provoked an explicit reply from Mandeville, to be assessed in the next section. According to the bishop’s very peculiar reasoning, the free thinkers’ message, of which *The Fable* was allegedly the most elaborate version, promoted atheism,

incited the more abject vices and, above all, preached against both the civilian government and the respect for property. The unbridled pursuit of pleasure, when competing with virtue in society, Berkeley claims, leads to discord and to the ruin of the whole community.

If the prescriptions of such a philosophy prevailed, men would occupy themselves exclusively with satisfying their most pressing desires, becoming lazy and causing in this way the progressive degeneration of the race (Berkeley 1997 [1732], 542–46). It is idle to observe here that such alarmist concerns not only distort Mandeville’s thought but also elide the central question raised in *The Fable* regarding the role of vice in stabilising purchasing power. When Berkeley decides to tackle the sensitive issue of luxury expenditure, he merely repeats the arguments previously elaborated by Hutcheson, without adding anything of his own. At a certain stage of the dialogue between the protagonists of his book, Euphranor, one interlocutor of Lysicles – advocate of the minute philosophy – contests the alleged usefulness of vice, objecting that dissolute men would experience a shorter life than righteous ones, whose health would give them a long existence of moderate consumption for themselves and their families. The conversation soon turns to an exchange of what type of spending would bring forth the greatest wealth for society. The relevant passage occurs when Lysicles declares he has irrefutably demonstrated the importance of vice in the consumption of manufactures:

*Euphranor*: You seem to me to have proved nothing, unless you can make it out that it is impossible to spend a fortune innocently. I should think the public weal of a nation consists in the number and good condition of its inhabitants; have you any thing to object to this?

*Lysicles*: I think not.

*Euphranor*: To this end which would most conduce, the employing men in open air and manly exercise, or in sedentary business within doors?

*Lysicles*: The former I suppose.

*Euphranor*: Should it not seem therefore, that building, gardening, and agriculture would employ men more usefully to the public, than if tailors, barbers, perfumers, distillers, and such arts were multiplied?

*Lysicles*: All this I grant; but it makes against you. For what moves men to build and plant but vanity, and what is vanity but vice? *Euphranor*: But if a man should do those things for his convenience or pleasure, and in proportion to his fortune, without a foolish ostentation or over-rating them beyond their due value, they would not then be the effect of vice; and how do you know but this may be the case? (Berkeley 1997, 541)

The extremely rigorous definition of vice adopted by Mandeville, embracing all that exceeds the individuals’ basic needs, would eventually be the most criticised aspect of his doctrine. So, two flanks of attack on his ideas were quickly developed. The first sought to refute the sweeping classification proposed by Mandeville, condemning the exaggeration of listing under the head of vices all that, in his own words, “man should commit to gratify any of his appetites” (*FB I* 1992, 48). The second flank, also explored by the authors reviewed here, aimed to prove that if sumptuary expenditures were eliminated altogether, an equivalent amount of spending of a more laudable character could be generated to meet other needs. Mandeville’s response to such criticisms is discussed in the next section.

## 14.7 Mandeville's Reaction

As regards the first line of attack above indicated, Mandeville pointed out the hypocrisy of those who, while raging against vice, have not hesitated to enjoy the blessings of life without the slightest remorse, caring only to affect a disguised indifference to earthly temptations. In his answer to Bishop Berkeley, *A Letter to Dion* (1732), Mandeville replies to his opponents with the following comment: "No pleasure is denied them", he writes, "forsooth, that is used with moderation, and in cloaths, houses, furnitures, equipages and attendance, they may live in perfect conformity with the most vain and luxurious of the fashionable people; only with this difference, that their hearts must not be attached to these things" (Mandeville 1997, 588).

Regarding the second kind of criticism, Mandeville had already anticipated, in *The Fable*, an answer to the moralistic assault conducted by Hutcheson and Berkeley when he reasserted the expediency of vices to ensure the economic dynamism of wealthy nations. The naive uproar for the abandonment of luxury in favour of a virtuous behaviour, he said, would be irreconcilable with a world ruled by the logic of commerce. Those who defended such transformation had in mind only an abstract man who, in reality, never existed. In the introduction to his essay *An Inquiry into the Origins of Moral Virtue*, Mandeville clarifies his differences with the moralists of the time: "One of the greatest reasons why so few people understand themselves, is, that most writers are always teaching men what they should be, and hardly ever trouble their heads with telling them what they really are" (*FB I* 1992, 39). The call to frugality, he insists, would be suitable only for small, poor communities accustomed to a peaceful and tedious life. In a powerful and teeming nation, by contrast, parsimony could easily be excessive, generating unemployment amid a large and work-starved population. "Prodigality", as one reads in *The Fable*, "has a thousand inventions to keep people from sitting still, that frugality would never think of" (*FB I* 1992, 105).

It remains to examine Mandeville's reaction to the idea that ostentation, after all, would encompass only the citizens' deficit spending. The analogy of the financial situation of a country with that of a household was too attractive to be ignored in a discussion of such scope. Bluet and Hutcheson tirelessly warned against the risk of economic ruin that would befall those who dared to live beyond their means. Consequently, if everyone followed Mandeville's prescriptions, it would be impossible to conceive the welfare of society amid the poverty of its members. As Bluet joked about this possibility, if the collective well-being is formed by adding the happiness of each individual in society, the adoption of Mandeville's recommendations implies that "an Army may be well clothed, though every single man in every regiment were forced to go naked" (Bluet 1997 [1725], 252). However, this reasoning totally misses the target, as Mandeville never proposed the indiscriminate practice of vice. Instead, he repeated time and again that the driving force of the whole economic engine comes from the combination of luxury and avarice, which generate a compensatory succession of gains and losses that relentlessly reproduces itself, in an unceasing process indispensable to the nation's economic strength.

## 14.8 Concluding Remarks

The great merit of Mandeville's economic doctrine lies in his commitment to bring to the centre of the discussion the issues related to the preservation of purchasing power in an affluent society. The long mercantilist tradition associating the growth of national wealth with savings called forth the question of who absorbs the corresponding non-consumed production. A positive trade balance appeared to be the most common alternative, although it suffered from the defect that – as many authors observed – no country could sustain an imbalance in its external transactions for an extended period of time. During a period when the message of free trade started to make strides, there was a pressing need to specify the conditions under which the productive potential of society would be fully mobilised. The fact that the discussion revolved around the problem of how to employ the existing population does not mean, as noted, that this concern was linked to some view of the working population as a source of consumption. There remained the mercantilist perspective that saw the available labour force as merely a component of the production process, one whose remuneration should be kept at the lowest possible value to stimulate the industriousness of employees and keep the costs of the exported articles low.

Mandeville's solution to the provision of employment, i.e., luxury expenditure, did not add much to what had already been said before. More importantly, with respect to economic theory, was his intuition about the importance of deficit spending as an indispensable counterpart of parsimony. Vice, while inducing expenditure, was not relevant by involving a malignant action *per se* but, instead, because it assumed the form of effectual demand, that is, of a buying decision backed by money. This, however, as Mandeville's critics easily realized, could be said about every type of spending, whether necessary or superfluous, virtuous or condemnable. The arguments regarding the moral substratum of expenditure, as raised by Hutcheson and Berkeley, only scratched the surface of the issue. The controversy, as it took shape at the time, required a more solid response, framed in strictly economic terms and capable of reconciling private and public interests. The task of guiding the discussion to its proper context was performed by the young Bluet, who helped pave the way for the future advent of classical economics. In his conception – which anticipated indeed the Law of Markets – demand would dispense with any stimuli other than those arising from the wealth expansion process in itself. By appealing to a notion close to Say's Law, Bluet was able to achieve a reconciliation between virtue, embodied in savings, and its economic reward, measured by profit. Private enrichment, through the productive investment of saved resources, could now be seen as synonymous with collective welfare.

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