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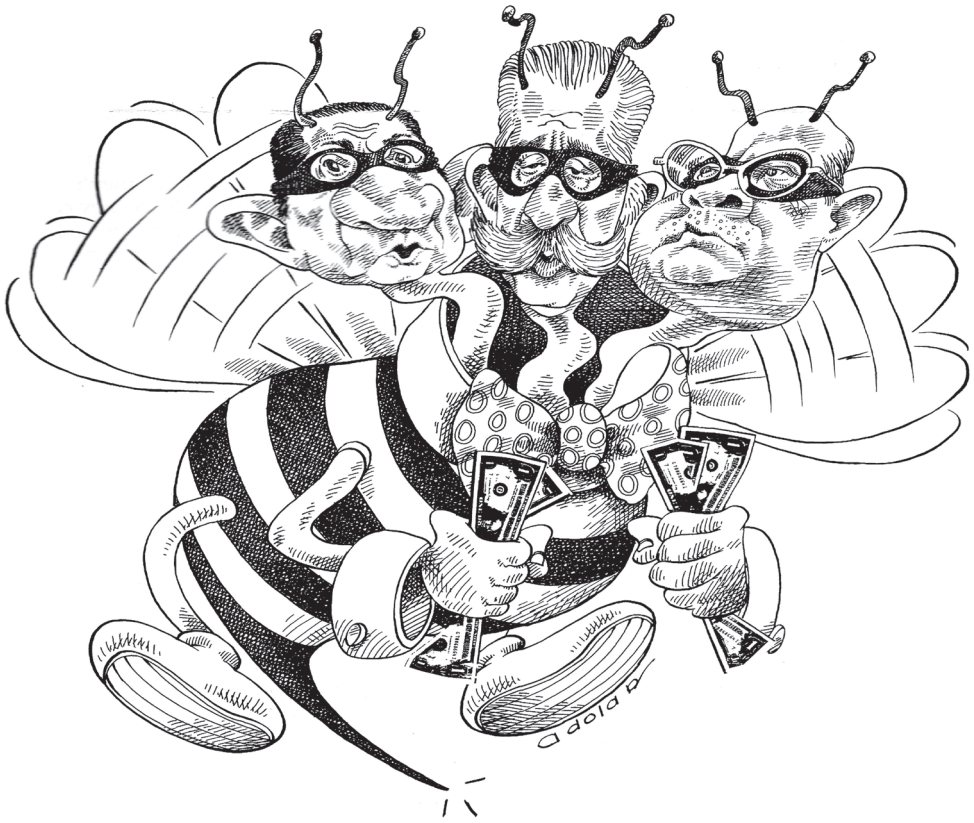
The Fable of the Bees

Eduardo Giannetti da Fonseca



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1. The Fable of the Bees

Eduardo Gianetti da Fonseca

Ethics deals with human choice. We are shocked by an earthquake that annihilates a community or by the leukemia that takes a young life. However, neither of these leads us to moral condemnation. They are natural disasters, determined by causes inherent to the physical world that are alien to human choice or will. We can avoid building cities in areas of seismic risk and we can seek a cure for leukemia. We can resign ourselves to natural disasters or we can pray. But it would be absurd to think that events like these could have been otherwise.

This view of natural causes is different from our ethical view of aerial bombing of civilian populations, the stealing of public funds, or a hit-and-run accident in front of a school. Moral revulsion is added to our feelings of shock. We pass ethical judgments on those who cause harm. We blame them because we believe we are witnessing events which, in one way or another, need not have happened. In contrast with the strictly scientific view with which we approach natural phenomena, in which "only what occurs is possible," the moral point of view opens a breach for the possibility that the world as it is may be inferior to the world *as it could and should be*.

Ethics begins with the belief in the existence of a breach — some would call it an abyss — separating human reality from human potential. The belief in this breach, in turn, is based in the experience of liberty which we can easily appreciate for ourselves.

The human condition suffers from a singular gap in its functions. The organism's vital functions — all the metabolic processes that occur within our bodies — are events immune to volition and conscious choice. The heart beats, blood circulates, the lungs work, and food is digested. We are powerless to decide how all this will happen. With the proper stimuli, the liver secretes bile and the adrenal glands secrete adrenaline. The effectiveness of anesthesia does not depend on the beliefs the ailing may have about its workings.

However, when we move from the body's metabolism to our relations with the external environment — to our actions in the world — we see a radical change. The cardiac patient is free to decide whether or not to consult a doctor and the surgeon chooses the best technique to repair the defective heart. Knowing that digestion of food occurs without his approval, the prisoner can choose a hunger strike as a means of protest. To act or not to act are events that in some way emerge from the individual and which are therefore open to the interference of the individual's mental state — his beliefs, preferences, and opinions.

Some activities, curiously, seem to be on the nebulous frontiers of what we can control. If we concentrate, and have the patience, we can speed or slow our breathing; otherwise it finds its own rhythm. In a sense, waking up at the desired hour is an act of volition — something we can force ourselves to do. However, no effort of conscious will can make us sleep when we are not tired. In fact, a common trait among insomniacs is to be conscious of the desire and need for sleep.

The subjective experience of that gap between *what happens to us* and *what we do* is something everyone can experience. Why that gap exists and why the frontier is where it is — we can wiggle our finger or tongue but not our pancreas or optic nerve — are questions that science and biology may some day help to clarify.

It is more difficult to imagine that scientific advances could someday undermine the validity of our subjective experience of the gap. The history of science has been in large part the history of the destruction of beliefs in imaginary causalities. With a simple pair of polished prisms, for example, Newton buried millennia of illusions about the causes of the rainbow. But to assume from that that our sensation of liberty is also an anthropocentric illusion would be to undertake an illegitimate step. What we face here is a metaphysical question about the role of the human species in the universe — is man simply a product of creation or a partner in creation? One of the few certainties one can have about this is that it will continue providing raw material for speculation and debate for as long as there are still philosophers to speculate and debate.

From an ethical point of view, the experience with the gap between what happens to us, on one hand, and what we do by our will, on the other, is crucial. The basic point is that, as in the physical events in the body

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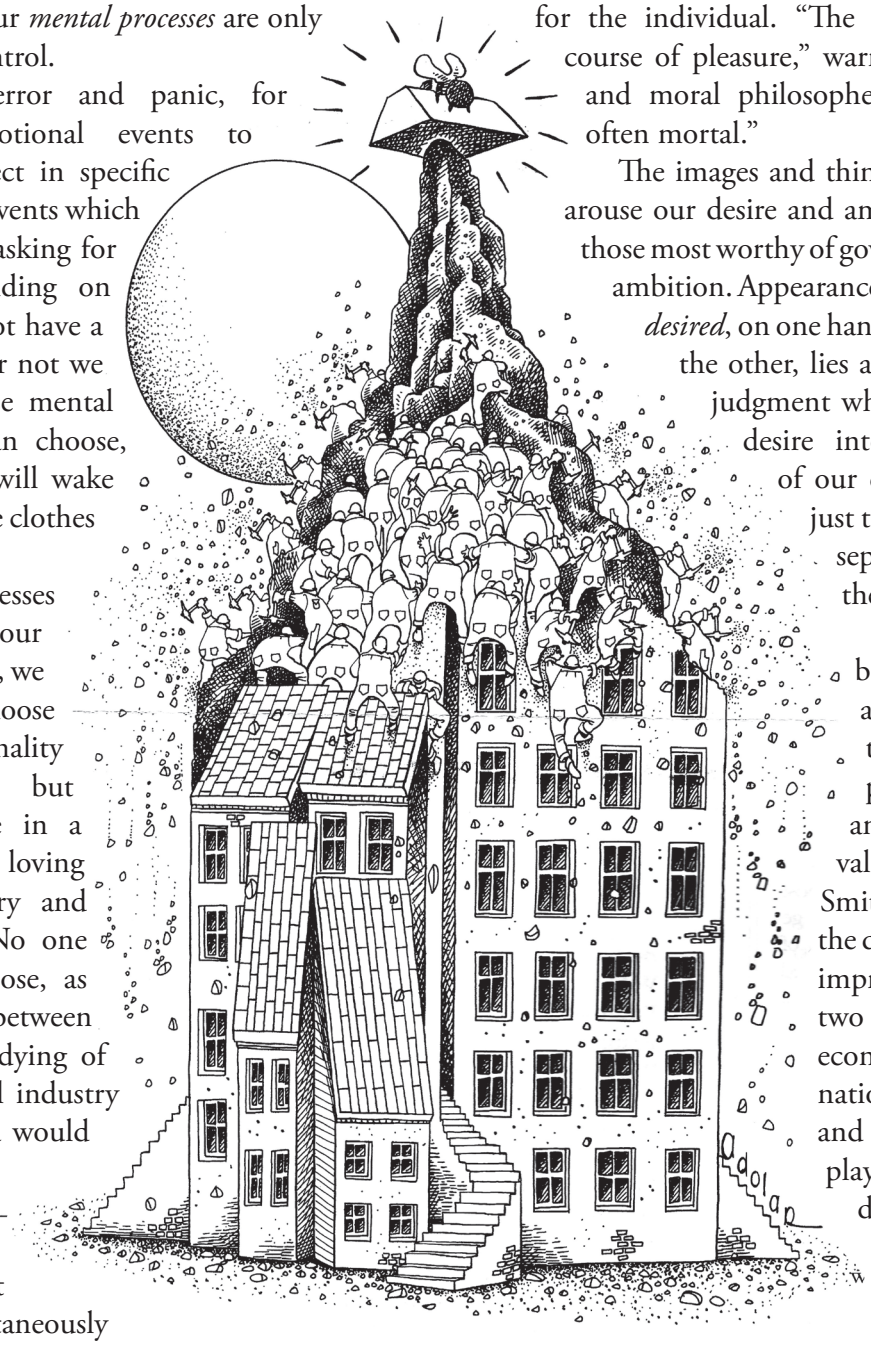
mentioned above, our *mental processes* are only partly under our control.

Fear, hatred, terror and panic, for example, are emotional events to which we are subject in specific instances. They are events which transfix us without asking for permission or standing on ceremony. We do not have a choice of whether or not we will experience these mental processes, as we can choose, say, what time we will wake up or the color of the clothes we wear.

If our mental processes were entirely under our conscious command, we would be able to choose not only our personality and temperament, but we could also live in a permanent state of loving ecstasy, creative fury and euphoric rapture. No one would have to choose, as the poet proposed, between dying of vodka or dying of tedium. The alcohol industry and the mass media would go bankrupt.

Ethics is a filter. It exists to deter, to a certain extent, what happens to us spontaneously — an acute sense of fear in a dangerous situation, for example — from unconditionally determining how we will behave in the world. Ethics operates as a filter that modulates and moderates the appeal of mental states, thereby diminishing their power over our actions — preventing us, for example, from relinquishing ourselves blindly to basic survival instincts in a situation of collective peril.

The same reasoning applies to a wide range of emotional events in which, instead of running away or avoiding something, we pursue an objective. "The preservation of our life," Socrates observed, "depends on a correct choice of pleasure and pain, be it more or less, larger or smaller or further or nearer (Protagoras, 357a). As even a libertine sooner or later discovers, discriminating among pleasures is a condition of survival for the individual. "The effects of a dissolute course of pleasure," warns the English bishop and moral philosopher Joseph Butler, "are often mortal."



The images and things that spontaneously arouse our desire and ambition are not always those most worthy of governing our desires and ambition. Appearances deceive. Between the *desired*, on one hand, and the *desirable*, on the other, lies an opinion — a value-judgment which converts what we desire into something worthy of our desire. Ethics emerges just then, as the filter which separates the desired from the desirable.

The difference between the desired and the desirable helps to clarify Adam Smith's position on material ambition and the moral value of wealth. For Smith, the free market and the desire of the majority to improve their lives are the two variables driving the economic performance of nations, with self-interest and the zeal of players playing an even more decisive role than the rules of the game. In Smith's own words:

"The natural effort of every individual to better his own condition, when suffered to exert itself with freedom and security, is so powerful a principle, that it is alone, and without any assistance, not only capable of carrying on the society to wealth and prosperity, but of surmounting a hundred impertinent obstructions with which the folly of human laws too often encumbers its operation."

Smith's argument is that individuals ardently seek to improve their material condition, that they will fight persistently for this, and that they will use this newly conquered freedom — or the favors that they may wrangle from political authority — assert their economic self-interest. "People of the same trade", observed Smith, "rarely meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the

public, or in some contrivance to raise prices." This is the *desired*, that is, the actual behaviour not of one or two eccentrics, but of what he called "the great mob of mankind."

But Smith never confused the desired with the desirable. In the *Theory of Moral Sentiments*, he tried to show why the "great mob of mankind" wants what it wants and why its desires, while morally tolerable, were far from desirable:

We desire both to be respectable and to be respected. We dread both to be contemptible and to be contemned. But, upon coming into the world, we soon find that wisdom and virtue are by no means the sole objects of respect; nor vice and folly, of contempt. We frequently see the respectful attentions of the world more strongly directed towards the rich and the great, than towards the wise and the virtuous. We see frequently the vices and follies of the powerful much less despised than the poverty and weakness of the innocent. To deserve, to acquire, and to enjoy the respect and admiration of mankind, are the great objects of ambition and emulation. Two different roads are presented to us, equally leading to the attainment of this so much desired object; the one, by the study of wisdom and practice of virtue; the other, by the acquisition of wealth and greatness. Two different characters are presented to our emulation; the one, of proud ambition and ostentatious avidity; the other, of humble modesty and equitable justice... They are the wise and the virtuous chiefly, a select, though, I am afraid, but a small party, who are the real and steady admirers of wisdom and virtue. The great mob of mankind are the admirers and worshippers, and, what may seem more extraordinary, most frequently the disinterested admirers and worshippers, of wealth and greatness.

Smith's sympathies as a moral philosopher need no comment. He observed with analytical coldness the ordinary behaviour of mankind and was able to notice, for example, that "With the greater part of the rich people, the chief enjoyment of riches consists in the parade of riches, which in their eyes is never so compleat as when they appear to possess those decisive marks of opulence which nobody can possess but themselves." Almost without noticing (and not only literally) we tend "to make parade of our riches, and conceal our poverty."

But in contrast with the classical moralists, Smith never condemned the spontaneous aspirations of the people or succumbed to the illusion that moral preaching, well intentioned indoctrination, or the "marketing" of ethics could one day alter those aspirations. In his economic theory, he recognized the strength of the desire for wealth and sought to analyze its effects under different institutional arrangements.

None of this, however, led Smith to confuse the desired with the desirable. While tolerable from a moral point of view, and in many ways surprisingly beneficial for all of society, individual economic self-interest was far from admirable. That wealth and power alone could turn their bearers into persons worthy of our esteem and respect was always perceived by Smith as a "corruption of our moral sentiments."

A theoretical position very different from Smith's — the thesis of *ethical egoism* — came to dominate 20th century economics. This thesis celebrates self-interest governed by monetary motives, not as an empirical regularity related to discernible facts, but as a prescription — a normative ideal of individual behaviour — that promotes productive and allocational efficiency in the economy and the maximization of the well-being society.

Within this framework, the desirable is precisely what the "great mob of mankind" portrayed by Adam Smith desires. For the followers of ethical egoism "it is only necessary for each individual to act egoistically for the good of all to be attained" (Joan Robinson), as the "best results would follow if people did not think in moral terms at all, and merely acted selfishly" (Bernard Williams).

The purpose of this essay is to present and critically evaluate the argument which led to the thesis of ethical egoism in modern economics. We examine the limits of that thesis and analyze, in the light of recent empirical and theoretical research, the importance of ethics as a factor in production.

2. The mask of hypocrisy falls with the price of meat

Ethical egoism almost certainly has no precedent in ancient and medieval philosophies. In modern philosophy, its original formulation goes back to what was, in its origins, a satirical poem published anonymously in 1705 under the title of *The Grumbling Hive: or, Knaves turn'd Honest*. The initial impact of this poem was negligible. Nine years later, however, the poem reappeared as part of a broader work, also anonymous, which ended up turning into one of the greatest, if not *the greatest, succês de scandale* in a century notorious for the daring and prodigious vigor of its intellectual life. In its new incarnation, the original poem was followed by an essay on the "origin of moral virtue" and some twenty commentaries in prose developing specific themes raised in the satire. The new compilation was named *The Fable of the Bees: or, Private Vices, Publick Benefits*, and its author, who later emerged from anonymity, was a Dutch doctor settled in England, Bernard de Mandeville.

THE MORAL

Then leave Complaints: Fools only strive
To make a Great an Honest Hive
T" enjoy the World's Conveniencies,
Be fam'd in War, yet live in Ease,
Without great Vices, is a vain
Eutopia seated in the Brain.
Fraud, Luxury and Pride must live,
While we the Benefits receive:
Hunger's a dreadful Plague, no doubt,
Yet who digests or thrives without?
Do we not owe the Growth of Wine
To the dry shabby crooked Vine?
Which, while its Shoots neglected stood,
Chok'd other Plants, and ran to Wood;
But blest us with its noble Fruit,
As soon as it was ty'd and cut:
So Vice is beneficial found,
When it's by Justice lopt and bound;
Nay, where the People would be great,
As necessary to the State,
As Hunger is to make' em eat.
Bare Virtue can't make Nations live
In Splendor; they, that would revive
A Golden Age, must be as free,
For Acorns, as for Honesty.

Bernard de Mandeville

Among Mandeville's characteristics as an intellectual, one of the most notable was his irreverent love of paradox. His favorite causes seemed calculated to instigate among his most orthodox readers the utmost outrage and repulsion. Beneath a varnish of refined, incisive rhetoric, he defended female prostitution in the name of protecting sexual chastity and attacked popular education on behalf of the preservation of the people's happiness — ignorance serving, in this case, as a sort of opium capable of bringing contentment to the least privileged.

But his most fertile paradox — that which turned his *Fable*, as Samuel Johnson derided it, into a work "that every young man had on his shelves in the mistaken belief that it was a wicked book" — was the argument developed in his 1705 satirical poem and immortalized in the elliptical formula, "private vices, publick benefits."

The hive in the *Fable* is a miniature representation of English society as Mandeville saw it: "those insects liv'd like men, and all Our Actions they perform'd in small." The principal feature of the hive was the deep dissociation between the brilliant practical and economic achievements, and the bees' ethical discontent with one another. In their ingenuity, the bees did not notice that the two were intimately intertwined — that the tie between one and the other was the same as the link between cause and effect.

Everything in the hive proceeded without much fuss until the day when the bees' prayers were finally tended to by an impatient god who expelled vice, bad faith, and hypocrisy from their lives. The bees of the hive then found themselves condemned to an insipid and mediocre, yet virtuous, existence inside a hollow tree.

Before the sudden conversion of the bees, no other hive was as powerful, prosperous, and well governed as that one. Its industry and military might conferred

upon it great respect and international renown. Its laws, art, science, and technology were admired and imitated by neighboring hives. While there was great social inequality among the bees, there was no unemployment in the hive. And advances in technology and productive capacity were of such degree that all benefited in some way. Thanks to this, the poor of today "Liv'd better than the Rich before."

However, dissatisfaction was rampant. The bees lived without peace and passed their days accusing and recriminating each other. They never lost a chance to complain bitterly about their condition. A closer view of the motives driving the activities of the hive helps clarify the reason.

The hive's economy was sustained by the vices which motivated the bees as consumers and producers. Its power and affluence were the result of a far from edifying spectacle: "Millions endeavouring to supply Each other's Lust and Vanity."

In spending their income, the bees surrendered themselves to an insatiable hedonism. They were slaves to pleasure, exhibitionism and the whims of fashion. In production, they belonged to one of the two fundamental classes which divided the society of the hive: overt rascals and disguised rascals. The overt rascals included parasites, speculators, charlatans, forgers, swindlers, pimps, common thieves and all those "that in Enmity, With downright Working, cunningly Convert to their own Use the Labour Of their good-natur'd heedless Neighbour."

The disguised rascals, more numerous, were ostensibly honest, industrious, bees, who used some fraud or trickery against their clients and suppliers whenever they could get away with it without running great risk: "All Trades and Places knew some Cheat, No Calling was without Deceit." Among this group were lawyers, physicians, merchants, industrialists, military men, doctors, nurses, clerks, teachers, politicians, priests, Ministers of State, and Officers of Justice.

The great dream of every bee, regardless of class, was to find the shortest, easiest path to surpass others in fame, power, and wealth. Openly or secretly, the bees lived according to verse of Horace: "By right means if you can, but by any means make money." Virtue was the successful crime.

The bees were not only opportunistic, corrupt, and selfish. They were also short-sighted and incapable of seeing that the economic splendor of the hive, which they were so proud of, resulted precisely from those vices and faults, "as in Musick Harmony, made Jarrings in the main agree." The bees did not see that, as in their case, "a most beautiful Superstructure may be rais'd upon a rotten and despicable Foundation."

As every bee imagined itself better than the next, and sincerely believed itself far above all the dishonesty and depravation it saw in the hive, there was a great clamor for the establishment of ethics and justice in the hive. With every new accusation, every new scandal, with the smallest publicly divulged incident, the bees embarked on an orgy of insults and mutual recriminations. Each clamored for more honesty and the moral regeneration of the rest.

It was here that Jupiter lost his patience with the bees and resolved to heed them. He issued a decree eliminating any trace of selfishness, opportunism, and corruption in the "grumbling hive." From now on, all the hedonists and knaves (of both classes) will be paragons of virtue.

The first result is a profound, generalized feeling of shame. Each bee looks to its past and stumbles across what it did not see before — its own weaknesses, vices, and imperfections. The mask of hypocrisy falls jointly with the price of meat. Courthouses empty. Debtors seek out creditors to pay what they owe, but these prefer to forgive and forget. The law disappears as a profession (there were still no economists at that time). Justice and the penal system became idle, and with it disappeared detectives, policeman, jailers, and Officers of Justice. A few doctors remained in practice, but they were better distributed throughout the hive and looked out only for the well-being of the patient. The number of prescriptions plummeted. The clergy awakened from its stupor, but it was too late — there were no more sins to forgive.

Little by little, the repercussions of the new order began to be felt everywhere. Politicians and Ministers of State became frugal and began to live solely from their salaries. The public sector experienced a brutal contraction. The parasites gave up graft, and "All places manag'd first by Three, Who watch'd each other's Knavery, And often for a Fellow-feeling, Promoted one another's stealing, Are happily supply'd by One, By which some thousands more are gone."

In the private sector, the effects of Jupiter's decree were even greater. Without wars there was no weapons industry; without the desire to be ostentatious there was no production or commerce of luxury goods; without vanity and fickle hearts, there was no fashion industry. Bars, hotels and restaurants drained and bees came to wear the same clothes for years. Foreign trade declined. Factories and stores closed one after another. Prices collapsed and unemployment exploded. The bees lost the interests that drove them: they no longer cared to

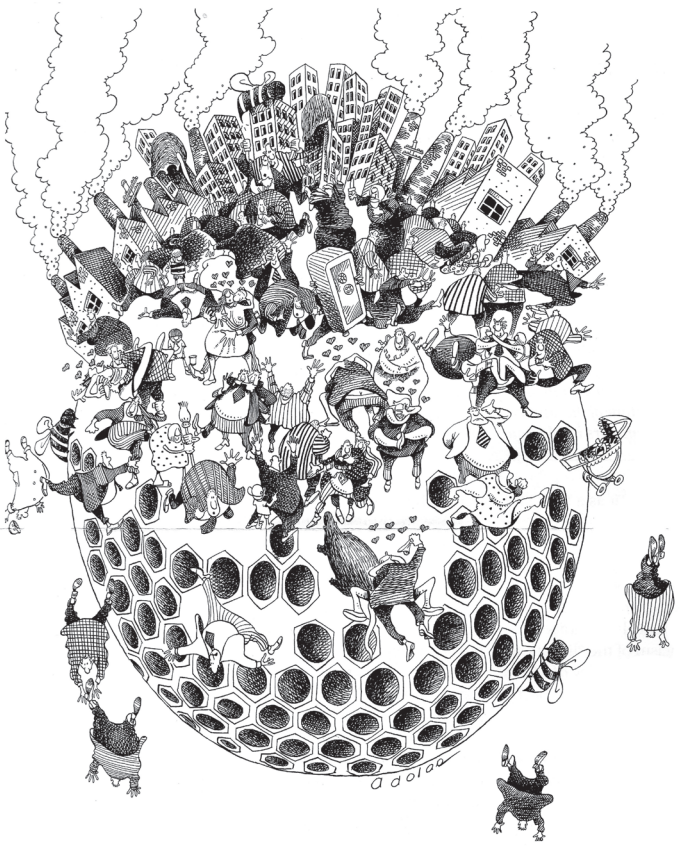
earn more, at less cost, so as to be able to spend more. "Content the Bane of Industry, Makes Them admire their homely Store, And neither seek nor covet more."

The final result of this long chain of interdependent destructive effects resulting from the sudden regeneration of the bees is a double depression — an unparalleled decline in the economy coupled with existential lethargy. An attempted invasion of the hive is warded off at high cost, with the sacrifice of thousands of bees, until finally the formerly grand and radiant hive resigns itself to that pattern of life typical of social insects — a stagnant existence, rigid and dull, "Blest with Content and Honesty" inside a hollow tree. And like any fable, this one has a moral, announced at the very end. As Mandeville states in the preface to his work:

For the main Design of the Fable, (as it is briefly explain'd in the Moral) is to shew the Impossibility of enjoying all the most elegant Comforts of Life that are to be met with in an industrious, wealthy, and powerful Nation, and at the same time be bless'd with all the Virtue and Innocence that can be wish'd for in a Golden Age; from thence to expose the Unreasonableness and Folly of those, that desirous of being an opulent and flourishing People, and wonderfully greedy after all the Benefits they can receive as such, are yet always murmuring at and exclaiming against those Vices and Inconveniences, that from the Beginning of the World to this present Day, have been inseparable from all Kingdoms and States that ever were fam'd for Strength, Riches, and Politeness, at the same time.

The argument of *The Fable of the Bees* overturns the thesis that our social problems are caused by the growing disparity between the scientific, technological, and economic advances of mankind, on one hand, and the ethical backwardness of individuals on the other. Vice is not the bastard of prosperity. It is the father of prosperity. The mortar of human flaws and motivations egoism, greed, jealousy, vanity, impetuosity, cupidity, avarice — is the indispensable ingredient for the fine porcelain of civilization. The tie between vice and progress is not of simple concomitance, like many presume. It is a direct causal relationship in which, thanks to a type of "divine alchemy" (Mandeville), the most brilliant results are caused by the most contemptible passions.

The fulcrum of the Mandevillian paradox is a *reductio ad absurdum* of the position adopted by classical moralists. Imagine that one day, by a true miracle, humanity not only was disposed to listen with due attention to the exhortations of these moralists, but was also willing to behave in accordance with them. What would it be like to live in a community inhabited entirely by people



like St. Francis Assisi, Mother Teresa of Calcutta, and Mahatma Gandhi? What would happen if people truly became lovers of the good and the virtuous, following to the letter the central tenet of Kantian practical reason, according to which each must behave so that maximizing his will can be a universal guide to behaviour? Or even, if each of us concluded that "there are few things we should keenly desire if we really understood what we wanted" (La Rochefoucauld)?

Mandeville's answer is that there can only be one result of so much virtue: the ruin of commerce and industry, scientific and technological stagnation, and the general weakening of civilization.

The central argument of the *Fable* contains much truth. An excess of civic morality leads to a petrified bee hive. Its imposition from above and beyond (in this case by divine authority) produces a stagnant and insipid limbo in place of the paradise of fantasy. The moral value of the great saints, martyrs and heroes of humanity lies in the relative scarcity of their merits and virtues. If we were all as good as they were, no one in the world would stand out for his goodness. To imagine that we could base an entire economic system on the assumption that individuals will live up to the ideal of moral perfection is not only a foolish fantasy, but also a recipe for disaster. he most valuable contribution of Mandeville's satire was to show how much truth and good sense existed in such argument.

On the other hand, the same cannot be said of the notion that morality has nothing to do with productive performance or serves only to constrain it. Recent findings of economic theory and research about the determinants of the level of development of nations run directly counter to that idea. Both suggest that the thesis of ethical egoism suffers from serious analytical faults and needs to be radically revised.

Before proceeding to a critical evaluation of ethical egoism and an examination of the role of morality as a factor in production, it would be worthwhile to briefly clear up three points needed to understand the Mandevillian paradox: (a) the role of laws and justice, (b) ethical rigorism, and (c) the question of "divine alchemy."

Mandeville recognized, albeit with little emphasis or rigor, the importance of a respected framework of *law and order* to contain the acquisitive frenzy of the bees within certain bounds. In the moral of the *Fable*, he not only reinforces the central message that "Bare Virtue can't make Nations live in Splendor," but also introduces a new clause, not previously mentioned, which attenuates to some extent the paradoxical nature of the argument: "So Vice is beneficial found, When it's by Justice lopt and bound." Curiously, while Mandeville had not written a specific commentary to explore this point, in his digression on conspicuous consumption he argues:

Trade is the Principal, but not the only Requisite to aggrandize a Nation: there are other Things to be taken care of besides. The Meum and Tuum must be secur'd, Crimes punish'd, and all other Laws concerning the Administration of Justice, wisely contriv'd, and strictly executed.

The fact, however, is that the plot of Mandeville's satire seems to be inconsistent in large part with the implementation of that precept. For if justice were strictly implemented, it would lead to the extinction of one of the two fundamental classes in the hive, the overt rascals. Clearly, an emphasis on a framework of law and order would in no way contribute to reinforcing the *Fable's* tone of provocation and affront.

The central argument of the *Fable* hinges upon extreme *ethical rigorism*. To attain the desired effect, Mandeville works with an extraordinarily limited vision of what moral conduct is: the notion that all virtue is composed of renunciation, that is, of the "the Conquest of his own Passions, out of a Rational Ambition of being good", to the extent that any self-interested act, which in some way benefits its agent, becomes *ipso facto* a selfish act and can therefore be labeled vice.

It would be wrong to deny Mandeville's point that renunciation is one of the central elements of moral conduct. But defining it as a total and absolute "surrender of the passions" and making it the only path of virtue — with all else falling into the common trough of vice — is highly questionable. It may not put it entirely out of reach for mere human mortals but it surely strips it of any practical relevance.

Adam Smith, in his criticism of the "licentious system" of Mandeville in the *Theory of Moral Sentiments*, put his finger on the nerve of the question:

It is the great fallacy of Dr. Mandeville's book to represent every passion as wholly vicious, which is so in any degree and in any direction...Some popular ascetic doctrines which had been current before his time, and which placed virtue in the entire extirpation and annihilation of all our passions, were the real foundation of this licentious system. It was easy for Dr. Mandeville to prove, first, that this entire conquest never actually took place among men; and secondly, that, if it was to take place universally, it would be pernicious to society, by putting an end to all industry and commerce, and in a manner to the whole business of human life.

In the same way Hume, criticizing the "moral enthusiasm" associated with ethical rigorism, states:

To imagine, that the gratifying of any sense, or the indulging of any delicacy in meat, drink, or apparel, is of itself a vice, can never enter into a head, that is not disordered by the frenzies of enthusiasm. I have, indeed, heard of a monk abroad, who, because the windows of his cell opened upon a noble prospect, made a covenant with his eyes never to turn that way, or receive so sensual a gratification.

Moral conduct is not only composed of the renunciation of passion. The affirmation of values in practical life, the search for happiness and a prudent attention to our personal interests are laudable principles of behaviour, just as apathy and sloth — negligence and disregard of our own selves — have no merit. Mandeville skillfully turned monastic asceticism into the universal standard of moral conduct as a strategy to achieve the paradoxical nature of the *Fable*.

Finally, there is the problem of the interpretation of the "Private vices, Publick Benefits" formula. There is an enigmatic ellipse separating the two parts of

that expression. What precisely is the nature of that mechanism — of the *divine alchemy* responsible for the transformation of the vice of the parts into the splendor of the whole?

There are two basic lines of interpretation. On one pole there is the position defended by Jacob Viner, that Mandeville is still essentially a mercantilist, and that it is through "the skilful Management of the clever Politician", which Mandeville repeatedly invokes, that private vices become public benefit.

On the other pole is the position taken by Hayek, among others, in which Mandeville is a precursor of the Smithian "invisible hand." This point of view sees that through economic liberty and the "general rules of just conduct," as stressed by the Austrian economist, private vices will turn into public benefit.

Admittedly, both positions are reasonably plausible. In many passages, for example, Mandeville voices his fear that the "the short-sighted wisdom, of perhaps well-meaning people, may rob us of a felicity, that would flow spontaneously from the nature of every large society, if none were to divert or interrupt this stream. One of the primary functions of "wise laws" would be precisely to protect the common good from the "great damages" caused by "the want of knowledge or probity of ministers, if any of them should prove less able and honest than we would wish them." All that, it is hard to deny, is grist in the mill of those who would prefer to see Mandeville in the pantheon of the pioneers of economic liberalism.

But there is also a good deal of evidence pointing in the opposite direction. The importance Mandeville attributed, for example, to the existence of a large and poorly educated population ("blessed" by their ignorance), the international prominence of the hive and its military power, are unequivocal traces of his mercantilist inclinations.

Even more symptomatic is the absence, in his work, of any articulated *economic* argument demonstrating how private vices would result in public benefits. Throughout the *Fable*, whenever he refers to the meaning of the ellipse in his formula, Mandeville invariably emphasizes the role of *political authority* in the creation and execution of policies and institutions which render the private interest subservient to the common good. The metamorphosis of the rough clay of the parts into the fine porcelain of the whole takes place through a political process which depends, in its turn, on the existence of "able politicians." Mandeville preaches economic liberty without explaining how it works. It is a curious spectacle to contemplate this doctor who, though an unbeliever, yet is simultaneously able to place so much faith in "divine alchemy."

The power of the Mandevillian paradox arises from a counter-factual exercise. The existing hive is contrasted with another, hypothetical hive, in which virtue and honesty have taken the place of vice and corruption. The question raised is: What would happen if the members of the community overcame their selfish, opportunist, and hedonist inclinations to embrace, let's say, the Franciscan ethical principle of "To give and not to count the cost, to labour and ask for no reward." The moral of the fable suggests the futility of clamoring for virtue. It leads to the reconciliation of the "grumbling hive" with its counterpart. The desired is the desirable. *Amor fati*.

The first step in illustrating the fragility of this reasoning and to show what is fundamentally wrong in the thesis of ethical egoism is to run a counter-factual argument in the opposite direction. Suppose that individuals adopted a code of conduct based on a strict, vigorous and impregnable self-interest, making them absolutely indifferent to any consideration of the well-being of others (egoism), and always ready to take advantage of the violation of norms of social behaviour in order to get ahead (opportunism).

Ask yourself — What would happen? What would be the probable consequences of the spread of crass self-interest — egoism + opportunism — throughout society? Up to what point would it be possible to assume, as Milton Friedman, George Stigler and other advocates of ethical egoism sustain, that a population composed of such individuals would lead to a society with maximum efficiency and prosperity, provided the State did not interfere too much and the players were free to follow their self-interest within the rules of the game of the market economy?

There are good reasons to believe that whatever the rules of the economic game might be, crass self-interest is much more of a hindrance than a help in the search for efficiency and economic growth. The simple maximization of individual self-interest, without inhibitions or moral reflection, is an inadequate principle of conduct — frequently fatal — both for the positive development of the economy and for the very existence of the market as a mechanism of economic coordination.

To state that pure virtue does not work in the economy, which is true, by no means implies that pure vice works, which is false. And to show this it is not necessary to imagine a planet peopled by Hiders, Stalins, Neros, and Genghis Khans. It is enough to examine some concrete cases in which ethics through its presence or absence — has a powerful effect on the result of the game.

The imperative of justice, as a condition of the survival of complex societies, is a main feature of Adam Smith's thought, to which even Mandeville himself pays somewhat bashful homage. In its extreme, as Joan Robinson notes, "A society of unmitigated egoists would knock itself to pieces." A respected framework of law and order, protecting each individual against acts of violence, theft, and fraud, is what keeps us from outright war.

The *legal minimum* of civilized human coexistence in politics and markets may seem a mere trifle. However, a minimum of civilized coexistence can be much harder to achieve than it may seem. Recent experience shows the difficulties bred by the absence of common moral and legal standards in East European countries in transition to market economies or in underdeveloped economies in which modern institutions have not become stable.

From pure vice to the legal minimum

The legal minimum of civilized human coexistence cannot be taken for granted. Like any regulation, the framework of law and order is only respected when the great majority of individuals are disposed to obey it voluntarily. For this to occur, the coercive power of state authority and the rational calculation of crass self-interest is insufficient. Social order and the market order are anchored to an ethical infrastructure. To avoid disaster, that anchor must hold.

Adherence to the legal minimum requires a considerable dose of moral feelings and beliefs formed in part by a long learning process in the home and school, which keeps the violation of laws within certain bounds. Statistics on violent crimes reveal the limits and the fragility of observing the legal minimum in the contemporary world.

In some American cities 25% of high schools have acquired and installed metal detectors in an effort to reduce the prevalence of weapons among students on school grounds. The future is undecided. But it is important to remember that unlike the physical attributes of the body, moral beliefs and feelings are not transmitted genetically from generation to generation.

From the economic point of view, the legal minimum assumed by adherents of pure economic theory, is not enough. What is most deceptive, however, is to assume beforehand that its existence is given or that players' respect for it is universal.

The conquest and consolidation of the legal minimum are much more complicated tasks than they seem at first. Achieving them, while not an end all and be all, is already a big step. The risk of assuming that the legal minimum is given in the economy is that it is easy to lose sight of how variable and precarious adherence to that minimum can be. Experience shows that a well defined and widely obeyed legal minimum provide extraordinary benefits to any economy. The true dimensions of those benefits are seldom appreciated or noticed when they exist. Like good health, the legal minimum of economic interaction is only noticed when it is missing.

The legal minimum of the market economy includes, in addition to basic criminal legislation, rules which establish a boundary between licit and illicit economic activities. Sabotage of a rival company's operations or bribery of its marketing manager are violations of the most basic rules of competition. But to hide (or patent) an industrial secret or to attract that marketing manager by offering a higher salary is to play within the rules of the game, even though its consequences for the rival company can be even worse than in the first case.

The legal minimum of the market economy — well-defined property rights, freedom and guarantees in the execution of contract, and the prevention of anti-competitive behavior — seeks to prevent attempts by economic agents to live at others' expense, reaping what they did not sow.

The importance of preventing anti-competitive practices is stressed by Viner: "Practically all the support on economic and on ethical grounds which economic theory provides for the free enterprise system rests on the assumption that enterprise is not only private and free but that it is competitive." Competition stimulates free and private enterprise to seek productivity gains through technical and organizational innovation. But for these gains to promote general welfare, they must operate in a competitive environment.

Another element crucial to the proper functioning of the system is confidence, on the part of individuals and businesses, that the final product of their toil will be evaluated and rewarded in an independent way, by the willingness of consumers to pay for them.

The problem is that this link between activity, evaluation, and remuneration may be uncertain and irregular. If the market's legal minimum is not guaranteed by the State and becomes widely contested and disrespected, people will not only lose their confidence in their ability to reap what they sow today, but they will begin to reorient their efforts so as to reap today what others sowed yesterday. The effects of this breakdown

of confidence in the market's legal minimum are well analyzed by David Ricardo:

The quantity of employment in the country must depend, not only on the quantity of capital, but upon its advantageous distribution, and, above all, on the conviction of each capitalist that he will be allowed to enjoy unmolested the fruits of his capital, his skill and his enterprise. To take from him this conviction is at once to annihilate half the productive industry of the country, and would be more fatal to the poor labourer than to the rich capitalist himself.

The problem is that both a weak, inoperative State and an excessively strong, powerful State destroy private sector confidence in the market's legal minimum. The weak State is incapable of guaranteeing justice and protecting agents from other agents´ predatorial advances. The overpowering State becomes a predatorial threat itself, reaping the results of private sector productivity through confiscation and taxation.

Even worse than either of these is a perverse combination of the two: a State which fuses ineptitude in the administration of justice with irresponsible fiscal voracity.

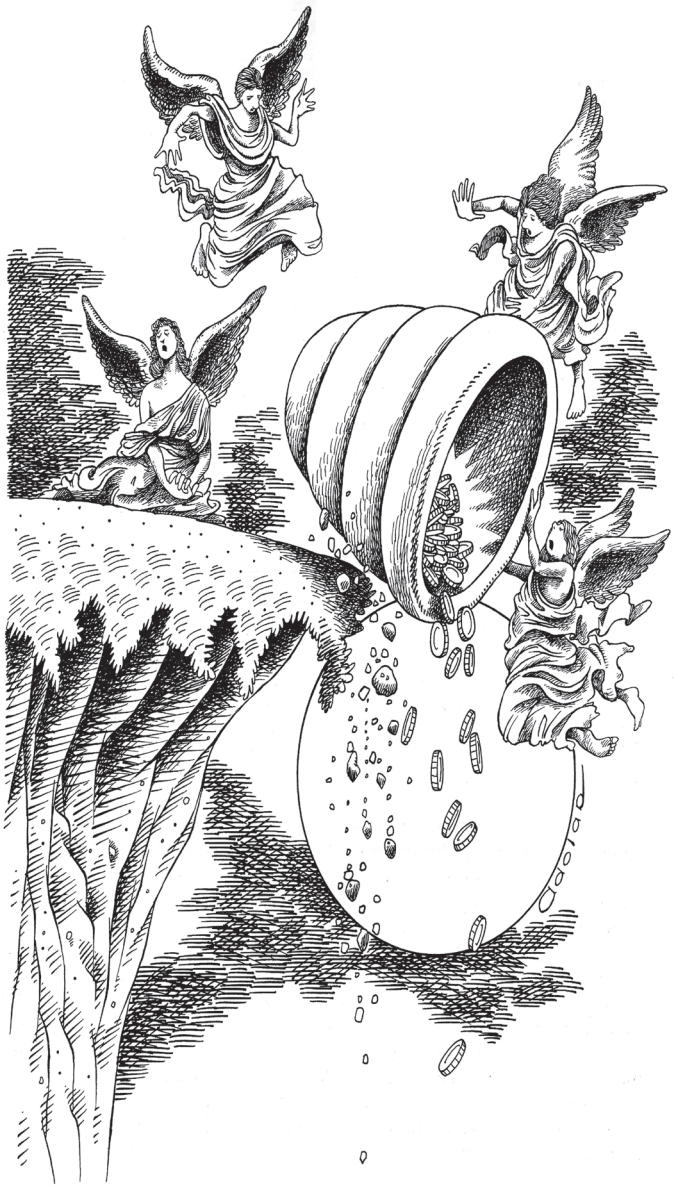
Unfortunately, this monstrous hybrid — a sort of anemic leviathan — is an obstinate scourge which many economies in Latin America and Africa have been unable to escape. The maintenance of a market's legal minimum, as Mill wrote of security, "consists of protection by the government, and *against* the government." What he could never have imagined was that some day *both things* could be urgently needed at the same time.

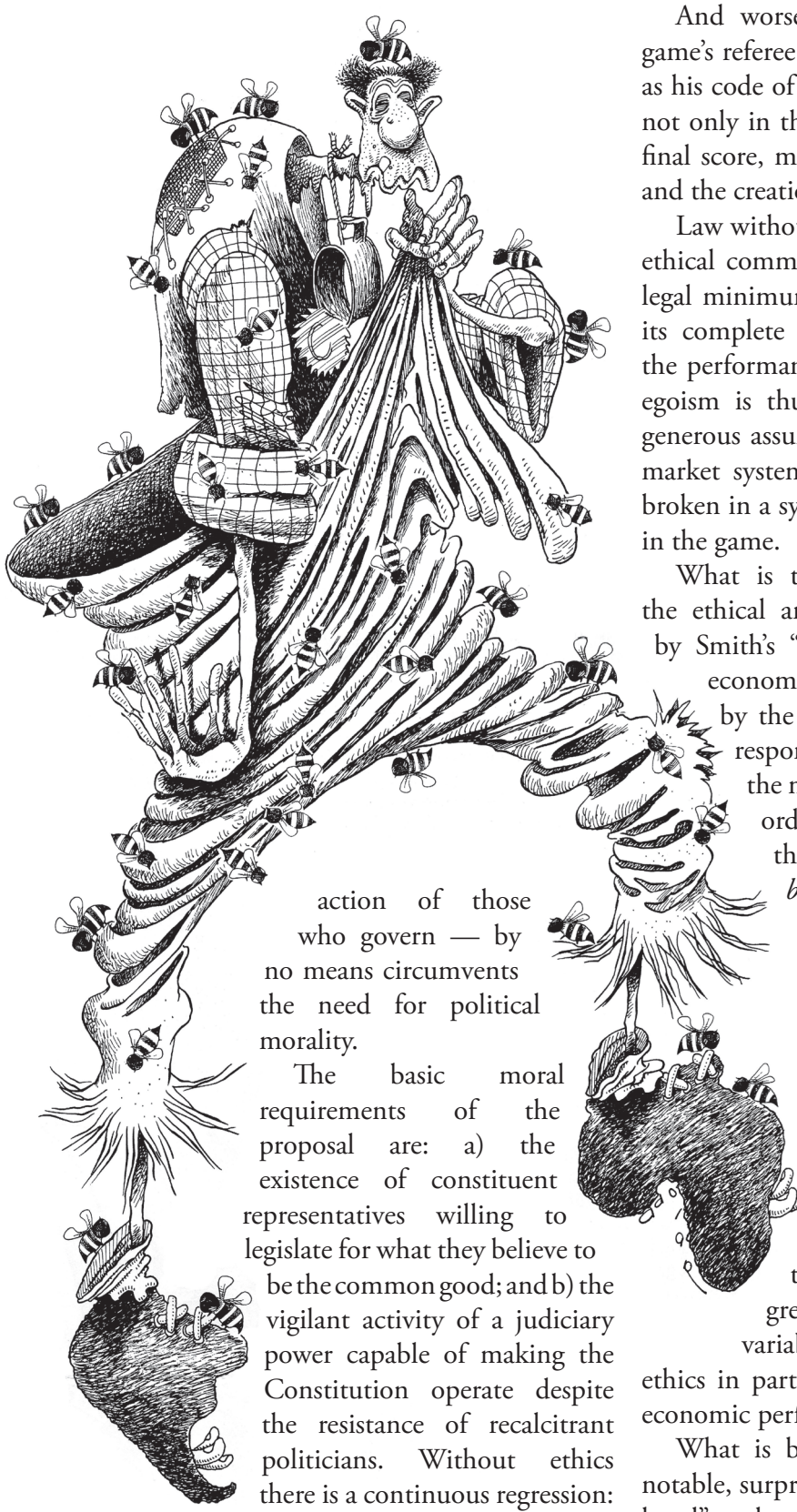
Chronic inflation deserves prominence among the causes of the erosion of the market's legal minimum. Stable currency is part of the system of weights and measures which give precision and transparency to economic transactions. The lack of a reliable monetary standard with a relatively stable value makes any calculation of economic returns precarious. It promotes the arbitrary transfer of enormous amounts of revenue between the public and private sector, stimulating patterns of behaviour incompatible with ethics and market logic. (In the near future, I expect to undertake research specifically focusing on the theme of ethics and inflation; a preliminary version of the argument to be developed is found in the article "Ethics and Inflation", *Braudel Papers*, 1993.)

A crucial factor in the defense of the market's legal minimum *by* the government and *against* the government is the morality of those who govern. Few things could be (or are) more corrosive to the respect for the rules of the market economy than the extension of the thesis of ethical egoism to the holders of public office. If members of the government or officers of justice were to govern their actions according to the pursuit of crass self-interest, the result would not only be the generalized practice of "for one's friends everything, but for enemies the full force of the law," but the subordination of the legislative process to personal or party interests.

This already happens to some extent in practice, as theoreticians of the "public school" claim. But it would be difficult to deny that international experience with corruption and the abuse of political power is marked by frightening diversity, with examples from Switzerland to Nigeria. Among the many probable causes of this diversity is the role of sanctions and moral conditioning in the exercise of public functions.

The favored proposal of adherents of the "public choice" to deal with the problem of the abuse of power in democratic regimes — the creation of constitutional rules and safeguards imposing limits on the discretionary





action of those who govern — by no means circumvents the need for political morality.

The basic moral requirements of the proposal are: a) the existence of constituent representatives willing to legislate for what they believe to be the common good; and b) the vigilant activity of a judiciary power capable of making the Constitution operate despite the resistance of recalcitrant politicians. Without ethics there is a continuous regression: who guards the guardians?

Thus the *quality of the players* affects the nature and strength of the *rules of the game*. Players motivated by crass self-interest are not content in seeking their objectives within the market order or in playing clean all the time: they will persistently try, with frequent success, to skirt the restrictions defined by the market's legal minimum.

And worse: when the political authority — the game's referee — weakens, or adopts crude self-interest as his code of behaviour, the result is a total disruption not only in the unfolding of the game, but also in the final score, measured in terms of productive efficiency and the creation of wealth.

Law without moral backing is worthless. The lack of ethical commitment makes the power of the market's legal minimum precarious and uncertain. It can cause its complete collapse, with serious consequences for the performance of the economy. Beyond that, ethical egoism is thus revealed as deficient even under the generous assumption that the rules of the game of the market system are given beforehand and will not be broken in a systematic way by the players or the referee in the game.

What is the nature of the relationship between the ethical and the useful? Ethical egoism, inspired by Smith's "invisible hand", prizes the rules of the economic game, that is, the free-market propelled by the self-interest of the players, as the factor responsible for the wealth of nations. Given that the market is a respected framework of law and order, economic prosperity is attained *despite* the players' lack of ethics (Adam Smith) or *because* of it (Mandeville and Chicago). In the economic egoist's view, the useful is independent of the ethical or it is a negative function of the ethical.

If we adopt the position of ethics as a factor of production, the picture is altered radically. As far as the rules of the game are concerned, there is little disagreement. The market economy ruled by the price system is the best solution for the problem of economic coordination and the efficient allocation of resources. The great difference is in the weight given to the variable of the *quality of the players* — and to ethics in particular — as a determining factor in the economic performance of enterprises and nations.

What is being questioned, therefore, are not the notable, surprising properties of the Smithian "invisible hand" or the universality and strength of people's desires to improve their lives. On that point there is agreement. What is questioned is what happens from there: the thesis that the rules of the market game represent a kind of green light for all behaviour in the ethical field and that self-interest within the law is enough.

I sought to argue in this essay that there are two reasons of a rigorously practical character — not to

invoke more elevated motives — by which we should review the notion that became dominant in post-war economic theory, that the market means "a moral holiday" for the players.

First, the rules of the economic game — including adhesion to and/or respect for the market's legal minimum — depend on the quality of the players. The existence of a frugal State, capable of administering justice, on one hand, and the disposition of the majority of individuals to abide by the rules of the game, on the other, presupposes a generous dose of civic morality. In the absence of this input — as seems to be the case in many communities — the institutions of the competitive market remain weak. Society's economic game thus is precarious, unstable, and disorderly.

Second, the workings of the rules of the market and of society's hierarchical institutions depend on the quality of the players. The experience of practical men as well as the evolution of economic theory provide good reasons to sustain the thesis that ethics *matter*. Given the market system and a respected framework of law and order, the wealth of nations is explained in large part by the presence of ethical values and social norms in the practical lives of the players. Between the desire of every individual, on one hand, and the desirable for the group to which he belongs, on the other, lie values and norms of common interest which must be preserved. The useful, in sum, is a positive function of the ethical.

On the great chessboard of human society the rules of the game are important, but they are far from being everything. We would deceive ourselves by supposing that self-interest within the law is all that the market needs to show that it is capable of creating wealth. The quality of the players — the variations of motivation and individual behaviour — affect the nature of the rules of the game and jointly exert a decisive role on the development of the economy.

The economic constitution as well as the exercise of citizenship in productive life depend on the process by which moral beliefs and feelings are formed, something about which there is little scientific knowledge. One thing, however, seems certain. To neglect this process and the variations to which it is subject is to lose sight of the decisive factors explaining the causes of the wealth and poverty of nations.

3. Braudel Institute In Russia

Members of the Fernand Braudel Institute of World Economics have just returned to Brazil from seven weeks in Russia. Their trip coincided with the political crisis and realignment that followed constitutional referendum and parliamentary election of December 1993.

Norman Gall, the Institute's executive director, was engaged in research on Russia's public health and mortality crisis that are relevant to the difficulties afflicting Brazil. He was joined by three other members of the Fernand Braudel Institute of World Economics: Dr. Aspásia Camargo, President of IPEA (the government's economic research institute), and Professors Carlos Longo and Celso Martone of the University of Sâo Paulo, holding seminars in Moscow and St. Petersburg with Russian economist and politicians. The World Bank now is sponsoring Russian editions Braudel Papers, focusing on aspects of chronic inflation in Brazil that Russians find helpful in understanding their own problems.

These common problems will be discussed at an international conference on Governability: The Political Economy of Scale being organized by the Braudel Institute with the support of the United Nations. Sessions of our conference on the organizational problems of continental nations will be held in São Paulo and two other Brazilian cities in the week of May 9-13, 1994, with participation of leaders from Brazil, China, India, Russia, and the United States.

4. "The Grumbling Hive: or Knaves turn'd Honest"

Bernard Mandeville

A Spacious Hive well stokt with Bees,
That liv'd in Luxury and Ease;
And yet as fam'd for Laws and Arms,
As yielding large and early Swarms;
Was counted the great Nursery
Of Sciences and Industry.
No Bees had better Government,
More Fickleness, or less Content:
They were not Slaves of Tyranny,
Nor rul'd by wild *Democracy*;
But Kings, that could not wrong, because
Their Power was circumscrib'd by Laws.
(...)

Vast Numbers throng'd the fruitful Hive;
Yet those vast Numbers made Them thrive;
Millions endeavouring to supply
Each other's Lust and Vanity;
While other Millions were employ'd,
To see their Handy-works destroy'd;
They furnish'd half the Universe;
Yet had more Work than Labourers.
Some with vast Stocks, and little Pains,
Jump'd into Business of great Gains;
And some were damn'd to Sythes and Spades,
And all those hard laborious Trades;
Where willing Wretches daily sweat,
And wear out Strength and Limbs to eat;
While others follow'd Mysteries
To which few Folks bind 'Prentices;
That want no Stock, but that of Brass,
And may set up without a Cross;
As Sharpers, Parasites, Pimps, Players,
Pick-pockets, Coiners, Quacks, South-sayers,
And all those, that in Enmity,
With downright Working, cunningly
Convert to their own Use the Labour
Of their good-natur'd heedless Neighbour.
These were call'd Knaves, but bar the name,
The grave Industrious were the same:
All Trades and Places knew some Cheat,
No Calling was without Deceit.
(...)

Thus every Part was full of Vice,
Yet the whole Mass a Paradise;
Flatter'd in Peace, and fear'd in Wars,
They were th'Esteem of Foreigners,
And lavish of their Wealth and Lives,
The Balance of all other Hives.
Such were the Blessings of that State;
Their Crimes conspir'd to make them Great:
And Virtue, who from Politicks
Had learn'd a Thousand Cunning Tricks,
Was, by their happy Influence,
Made Friends with Vice: And ever since,
The worst of all the Multitude
Did something for the Common Good.
(...)

Thus Vice nurs'd Ingenuity,
Which join'd with Time and Industry,
Had carry'd Life's Conveniencies,
It's real Pleasures, Comforts, Ease,
To such a Height, the very Poor
Liv'd better than the Rich before,
And nothing could be added more.
How Vain is Mortal Happiness!
Had they but known the Bounds of Bliss;
And that Perfection here below
Is more than Gods can well bestow;
The Grumbling Brutes had been content
With Ministers and Government.
But they, at every ill Success,
Like Creatures lost without Redress,
Curs'd Politicians, Armies, Fleets;
While every one cry'd, *Damn the Cheats*,
And would, tho' conscious of his own,
In others barb'rously bear none.
(...)

The least thing was not done amiss,
Or cross'd the Publick Business;
But all the Rogues cry'd brazenly,
Good Gods, Had we but Honesty!
Merc'ury smil'd at th'Impudence,

The selection above is a partial reproduction of Madeville's poem, summarizing the essence of his argument.

And others call'd it want of Sense,
Always to rail at what they lov'd:
But *Jove* with Indignation mov'd,
At last in Anger swore, *He'd rid*
The bawling Hive of Fraud; and did.
The very Moment it departs,
And Honesty fills all their Hearts;
There shews'em, like th' Instructive Tree,
Those Crimes which they're asham'd to see;
Which now in Silence they confess,
By blushing at their Ugliness:
Like Children, that would hide their Faults,
And by their Colour own their Thoughts:
Imag'ning, when they're look'd upon,
That others see what they have done.
(...)

Now mind the glorious Hive, and see
How Honesty and Trade agree.
The Shew is gone, it thins apace;
And looks with quite another Face.
For 'twas not only that They went,
By whom vast Sums were Yearly spent;
But multitudes that liv'd on them,
Were daily forc'd to do the same.
In vain to other Trades they'd fly;
All were o'er-stock'd accordingly.
(...)

As Pride and Luxury decrease,
So by degrees they leave the Seas.
Not Merchants now, but Companies
Remove whole Manufactories.
All Arts and Crafts neglected lie;
Content, the Bane of Industry,
Makes Them admire their homely Store,
And neither seek nor covet more.
So few in the vast Hive remain,
The hundredth Part they can't maintain
Against th'Insults of numerous Foes;
Whom yet they valiantly oppose:
Till some well-fenc'd Retreat is found,
And here they die or stand their Ground.
No Hireling in their Army's known;
But bravely fighting for their own,
Their Courage and Integrity
At last were crown'd with Victory.
They triumph'd not without their Cost,
For many thousand Bees were lost.
Hard'ned with Toils and Exercise,
They counted Ease it self a Vice;
Which so improv'd their Temperance;
That, to avoid Extravagance,
They flew into a hollow Tree,
Blest with Content and Honesty.