# Economic History, Scarcity, and Morality

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For most of history humans lived in a Malthusian world where the condition of scarcity was fixed and rigid because of the difficulty in achieving sustained productivity growth. This generated a series of moral judgments and responses that found expression in an array of formal and informal practices and institutions. This was a moral response to the conditions. It had the paradoxical result of making it impossible to escape from the Malthusian world because it blocked the main escape route, that of sustained innovation. In the later eighteenth and early nineteenth century a series of intellectual breakthroughs transformed (some) peoples' understanding both of scarcity and the best way to respond to it. This contributed to a transformation of the world between then and now that is both physical and moral.

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## Introduction

Economics is usually thought of as a discipline that eschews normative judgments or approaches. Most practitioners of the discipline of history also avoid explicit engagement with moral questions, despite Lord Acton's urgings to the contrary. How then can economic history have anything to say about the moral implications of scarcity? Economists can tell us what scarcity means but its moral import is surely beyond their remit. Historians for their part can surely only tell us what people in the past thought and did. When the two disciplines are brought together however, new insights on this topic emerge. Economic history can cast light not only on the kinds and nature of scarcity endured by our ancestors but also on the effects of this for their moral reasonings and understandings. These in turn fed back, via institutions and practices, into the world of production and exchange. In other words morality and the economic realm are intertwined and mutually causative and it is the historical perspective that enables us to understand how this was and, above all, how both have changed. In other words, economic history can tell us how the world in which we live is different from that of our ancestors, not only as regards physical conditions but as a moral world and help us to understand how these two transformations are so closely connected that they may be thought of as two sides of one coin.

## Absolute Scarcity and its Consequences

One of the fundamental insights of economics is that we live in a world of scarcity. Rather than things being abundant, so that no matter how much we want individually and collectively there is always plenty remaining, we live in a world where there are real limits to resources of all kinds. This means that we must constantly make choices between competing uses of those resources, and trade off one against another. We cannot have our cake and eat it in other words. However, the paradox is that the emergence of economics and the associated rise of modern growth involved a radical change in both our understanding of scarcity and the way it impacted on human experience. This change in both understanding and experience brought about a profound alteration in ethics, both theoretical and applied.

That resources were limited and that human action was correspondingly constrained was a commonplace throughout human history. This was a common observation of philosophers, statesmen, historians, and artists. Most revealingly it was a reality recognised in folk sayings and popular wisdom. Thus one Chinese saying, "the land is scarce and the people are many." The reality was that until recently most people lived one harvest away from serious dearth and hunger. If the harvest failed two or more years in succession (as happened on average every twenty plus years) the result was famine and starvation. Because there was little or no cushion or reserve natural disasters such as droughts, floods, or volcanic eruptions had far greater effects than they do in much wealthier societies such as the ones most people live in today. Most people had only a few clothes and leather shoes or boots were so valuable that they could be specifically left in wills. Moreover, it was not only products such as crops or the products of human labour that were scarce and limited. As the Chinese saying illustrates, basic resources such as water or land were often seen as limited and not sufficient for the demands of the human population. All of this was understood to be a basic and fixed part of the human condition. When Thomas Malthus theorised this state of affairs in his *Essay on Population* in 1798 he was simply expressing in theoretical and abstract form what many people before him had believed from concrete experience. (The text of the first edition of the Essay can be read at http://www.econlib.org/library/Malthus/malPop.html) Since his time we have managed to keep ahead of the jaws of the Malthusian trap through sustained innovation and a different way of understanding the condition of scarcity. That does not mean that Malthusian constraints have ceased to exist however – if the factors that have enabled us to escape them were to cease or fail then they would return with a vengeance.

Over the course of history people drew a number of conclusions from this observed scarcity of resources. Conclusions is perhaps too precise a word, given that not all of them were articulated in words or writings. Rather many were embodied in customs and practices, outlooks and attitudes, all of which were based on a recognition of the reality of radical scarcity and of the need to live within the constraints it imposed if disaster was to be avoided. The first was acceptance of the universal existence and persistence of poverty, neatly summarised in one of the last things that Jesus said to his disciples "The poor you will always have with you." This meant that poverty was ultimately something to be managed or adjusted to, maybe even something morally elevated, and certainly not something that anyone could reasonably expect to disappear or even see dramatically reduced.

Poverty in other words was the normal or default condition of life for the overwhelming majority. As such it was not seen as morally problematic or a challenge in the way that it is today. Certainly there was an idea in every civilisation and society that it should be relieved when possible but that is not the same as actually seeking to abolish it or thinking that this could be done. Revealingly charity in most of the world's civilisations was historically directed not towards the relief of poverty in general but rather to assist specific categories or kinds of poor people. Orphans and widows were the main target, because they were lacking in family support. This reflected another conclusion that our ancestors drew from radical scarcity, as we shall see.

The acceptance of poverty as the default condition of humanity meant of course that the idea of growth that made everyone better off was hardly considered. The thinking of most of those who wrote about wealth and poverty was that life was essentially a zero-sum game where one person or group's gain was always some other person or group's loss. This meant that to seek to improve one's condition beyond strict limits was morally questionable because it meant making someone else worse off – unless the ethical system was one of 'might makes right'. Of course a common response was to distinguish between in-group and out-group. Improving your condition was bad if it meant someone in the in-group was worse off but was fine if the cost was borne by an out-group. Attitudes like that were naturally a recipe for conflict, often violent.

We should not think that arguments like these were simply wrongheaded or mistaken. If there was indeed a largely fixed amount of resources and products that could only be increased with enormous difficulty and then only temporarily, then economic life was in fact a broadly zero-sum game. The key thing here was that for most of human history it was difficult to increase the efficiency of the use of resources other than by very small increments – because of the lack of innovation. This meant that the 'production possibility frontier' as economists now call it, the total of different combinations of different goods that can be produced from a given pool of resources (including labour) at a point in time, was rigidly fixed. You could produce more of one thing but typically only by producing less of something else as there was no way to bring about a swift increase in the productivity of the system as a whole. In particular it was very difficult to have less than 80% of the population involved in agriculture – any less and there would be general starvation. Consequently, production of other kinds could not be increased because of insufficient labour in those sectors while the labour that was already in those other sectors could not be made more productive without great difficulty (Wrigley, 2010 and 1994). There were many kinds of transactions that added value (such as trade and exchange) but these did not increase the efficiency and productivity of the system as a whole in a continuing and sustained way. Sometimes there would be one off windfall gains or step changes from acquiring more resources such as land or labour or from things such as the discovery of new crops or techniques but these were always short lived as there was no sustained increase in the productivity of the factors of production – it was simply a matter of getting more output from more input. Moreover, short term increases in output were quickly absorbed by rises in population, which meant there was no rise in living standards.

## The Deprecation of Wealth, Comfort, and Trade

All this meant that predation, taking other people's stuff by force was generally the only way to greater wealth. In a state of affairs where the total pie was indeed largely fixed relative to population the easy way to acquire more of the pie was to take it from someone else, because it was so difficult to grow the pie in per capita terms. The consequence of this was that in the majority of cases wealth was actually gained through predation rather than production or exchange. This also meant that aspiration for wealth and comfort frequently took on a predatory cast. People would look to acquire wealth through plunder, often in 'refined' forms. One frequent way of both gaining wealth and consolidating it was to become a tax farmer and to become rich by taking a share of the resources extracted from the productive. This was, for example, a major phenomenon under the later

Roman Republic and the early Empire, where the most certain way to sustained wealth was to become a tax farmer or publicanus, engaged both in collecting taxes for the state (having bid at an auction for this right) and in supplying the Roman army and building infrastructure. As the parable of the Pharisee and the Publican in St Luke's Gospel shows such people became a byword for immoral behaviour and grasping corruption (although the point of the parable is to contrast the repentance of the Publican with the self-righteousness of the Pharisee) (Luke 18: 9–14). Another was to use public office as a route to riches through bribery and corruption – the profitability of such offices meant that rulers frequently gained revenue by selling offices to the highest bidder or (as in France) by charging a tax for making a purchased office heritable. Above all, people who did acquire wealth through value adding activity such as production or trade typically then sought to enhance this position and perpetuate it via privileges granted by rulers in return for tax revenues. In a world where increased output per capita was so hard to achieve this made sense.

The deprecation of wealth was further elaborated in the critique of 'luxury' as it was called, which became a staple of philosophical and political argument from the Renaissance onwards with the rise of so-called 'civic humanism' or 'classical republicanism' (Berg & Eger; Berry, 1994; Sekora, 1977). (During the Midle Ages in Europe there was not so much criticism of comfort, perhaps because it was so rare and limited, but there was a persistent tendency to see poverty as a morally elevated condition, and to praise those such as monks and friars who adopted it voluntarily). In this critique, which drew on accounts of classical antiquity, luxury (or affluence as we would call it) was enervating and unmanning. It softened men and destroyed the masculine virtues and in particular civic virtue. As a result it actually weakened the state and political order. Moreover, the effect of luxury on both men and women was held to be demoralising, to encourage laxity, vice, and degeneracy and to undermine the proper forms of social conduct and relations (Hont, 2006). This was often presented through accounts of the corruption and degeneracy brought about by luxury in trading city states of antiquity such as Corinth, Sybaris, or Carthage. Consequently, many thought it was not actually desirable for a country to become more wealthy and prosperous as, once past a low level, this would actually have negative results for both private and public life and ethics.

The conclusions that were arrived at about such things as poverty and wealth had a number of important consequences for morals and ethics, which people were not afraid to draw. One, as the British Christian author Pelagius put it in his essay *On Wealth*, was that the possessions of the better off were in some sense taken from the poor. “It is the greed of the few that causes the poverty of the many” was how he put it (Rees, 1998. See also Brown, 2014). He was indeed criticised for the lengths to which he took this argument, not least by his arch foe St Augustine, but his views were not fundamentally different from those of the Fathers of the Church, simply more pointed. In other words, this was a widespread view among early Christians in the world of late antiquity.

Nor was this something that vanished from Christian thought during the Middle Ages or Renaissance: rather it was a recurring and central theme of Christian argument. In the Middle Ages Aquinas argued that there were two kinds of wealth: natural, which meant the necessities of life, things that human beings required by their nature, the desire for which was limited, and unnatural which meant things such as goods that were desired only for convenience or comfort. The desire for these kinds of good was unlimited and therefore morally harmful, both for the desiring individual and for third parties because of the effects this had (Aquinas ST Ia-IIa, q. 2, a. 1). Arguments of this kind persisted for far longer than most people realise: for example in the nineteenth century United States there was a powerful restatement of this position by the conservative Calvinist theologian Robert Lewis Dabney (Dabney, 1890). The same idea was also found among pagan philosophers such as Cynics and Stoics and was found in other civilizations such those of China and India.

If most or all wealth came from the poor then wealth was seen as somehow tainted or impure. The deeper understanding this drew upon was that in a world of radical scarcity where economic activity often was a zero-sum game the moral or virtuous way to behave was to restrain your own desires and acquisitiveness while looking to share out the scarce resources according to a principle of justice or common interest. This was the view of for example St Augustine, despite his criticisms of the radical language of Pelagius. It was also the position of Confucius and his followers, of the Buddha, and of most important Hindu thinkers. Of course given human nature many drew the opposite conclusion that when living in such a world it was better to be a wolf than a sheep, to be a predator and enjoy comfort and ease than to be preyed upon and share limited resources.

A very important aspect of the general moral devaluing of wealth was a particular suspicion of trade and commerce. Paradoxically, given that wealth of this kind was truly derived from value adding productive activity and free exchange, it was seen as especially suspect as compared to other ways of getting wealth and comfort. This was because worldly success that was founded on trade or commerce was often seen as ultimately based on injustice or fraud of some kind. This was in contrast to the wealth of landlords or clergy, which was still seen as questionable (particularly in the case of the clergy) but nevertheless still justified because it was linked to a defined social function that was regarded as necessary. Moreover, certain kinds of economic activity, above all acting as a middleman or lending out money at interest, were seen as particularly and inherently bad, being predatory and unjust by virtue of their very nature. This was because they were regarded as not adding or creating value but as simply extracting it from other participants in the relationship. When scarcity was understood as an absolute condition of constraint that could seldom be altered this made apparent sense although in fact it was false. The paradox was that many people involved in commerce accepted this view and so did indeed behave in a predatory and exploitative fashion, even though this was against their actual self-interest.

## The Moral Economy, Rules and Institutions for a Malthusian World

The practical results of this thinking about trade and business were laws and prohibitions against a whole range of economic activities. The best known and most prominent example was the case of usury (lending money at interest). This derived from the notion that can be traced back as far as Aristotle that interest created wealth for the lender out of nothing, i.e. with no productive effort being involved. There were repeated attempts to ban interest in both Christian and Islamic civilisation and even though these were mostly ignored there were still onerous laws in place that capped interest and by doing this prevented access to credit for many people. Moneylenders meanwhile could expect social opprobrium and regular shakedowns by the authorities or even (especially in the case of Jews) outright massacres.

There were however many other laws that sought to prevent the activities of economic middlemen. One found throughout Europe and beyond was laws against what were called in England 'forestalling' and 'regrating' and 'engrossing'. Forestalling meant buying up a seller's wares before they were brought to the market and then taking them to that market or elsewhere and reselling them at a higher price. Regrating meant buying goods in a marketplace and then reselling them for a higher price either there or nearby while engrossing meant buying up large quantities of corn or other foodstuffs not for one's own use but for resale. (Britnell, 1987. The text of part of a medieval statute can be found here http://legacy.fordham.edu/halsall/source/forestall.asp) In modern economic thinking these laws are prohibitions of arbitrage and as such can only reduce social welfare by making the allocation of resources less efficient. In some cases this could be literally fatal, as when the ban on engrossing grain meant that there was no incentive for people to move it from areas of relative surplus to areas of dearth.

From our ancestors' perspective this was all about preventing sharp eyed entrepreneurs from taking advantage of opportunities to sell goods at a price higher than a socially agreed 'just price'. Laws of this kind were in force across most of Europe throughout the Middle Ages and survived until well into the nineteenth century in many places. (Mecklenburg was one striking example). There were similar prohibitions in other parts of the world. These laws were made by all kinds of authorities, whether kings, parliaments or self-governing cities. They were regularly enforced and throughout Europe the criminal courts' records are typically full of cases where traders were prosecuted for breaching them. The laws against forestalling and regrating were aimed at any good that could be bought and sold in a legally recognized market rather than any particular category or class of goods. The laws against engrossing by contrast focused mainly on foodstuffs. The explicit aim behind such laws was to enforce a known and particular price – it was not a matter of setting a guide or starting point. In reality, of course, this was often ignored as economic reality asserted itself. However, this did not stop authorities from reissuing laws controlling prices repeatedly and this reflected the widespread moral presumption that there should be traditional and known prices for goods because the alternative of flexible prices would lead to unjust allocation of the limited and fixed pie of wealth.

Yet another example was the existence of guilds and trade combinations that regulated trade and such matters as quality while limiting or rationing the ability to practise the trade. These were to the modern economic mind rent seeking cartels of producers, which had the effect of restricting access to a trade, raising prices and, above all, restricting innovation (Ogilvie, 2014. See also Howell, 2010). The goal again was to make economic activity conform to a set of socially established rules and expectations rather than respond to economic incentives. The crucial point to realise is that all of these laws and institutions were seen as having a moral function or purpose, derived from the moral implications of radical scarcity.

Such explicit laws and regulations were actually only part of an array of social institutions and practices that grew up in most traditional societies (i.e. pretty much all human societies before the late eighteenth century). These are generally known by the umbrella term of 'moral economy'. This was a term introduced into academic discourse by James Scott in his work on peasant economic practice in South East Asia and initially coined by the late E. P. Thompson in his studies of popular resistance to the rise of capitalism, but the actual phenomenon was discussed long before the term came to be widely used (Scott 1977, Thompson 1971). 'Moral economy' is a very good coinage because it captures the essence of what might otherwise seem to be a bundle of disparate practices and conventions. In essence what united them was that these were ways of managing and organising economic life and activity in the world of radical constraining scarcity that our ancestors inhabited and of doing so in a way that reflected and enforced a moral perspective and outlook that they held as a response to that condition of radical scarcity.

In Scott's discussion of moral economy among Asian peasants he uses the following metaphor to describe the situation of peasants and by extension most people in most historical societies. They are like somebody stood in water so deep that their nose is just out of the water. They can breathe freely but the slightest wave or rise in the water level means that they will drown. This captures the condition described earlier, of general poverty with most living on the edge of subsistence. Moreover, a person in this situation standing on their own is very vulnerable but someone who is part of a group is less so because of the mutual support of the crowd. What this meant in practice was a number of things. Firstly, there was pronounced risk aversion. An important consequence of this was hostility to innovation, even if it might be productive, because it was uncertain and hence risky. By using up resources it might well push everyone 'underwater' if times turned hard and the innovation failed. The form this took was strong social sanctions against innovations and departures from the traditional or established way of doing things. In contrast to modern societies, traditional ones were neophobic and had all kinds of barriers to change, both formal and informal. (See the paper by Mokyr at http://www.fsalazar.bizland.com/PYMES/Berg.pdf )

A second feature was institutions and practices that led to a sharing or rotation of resources. Examples of this were common access to land (such as common land in England before enclosures) or fishponds or to certain kind of wood and timber. The system of rotating access to scattered strips of land in three large open fields that was found throughout Medieval Europe is another. (This kind of agricultural system actually persisted for a long time in many places, into the eighteenth century in many parts of Europe and even into the nineteenth century in Russia.) The thinking behind this was that nobody should by luck or for some other reason come into control of an excessively large part of what were stringently limited resources. This was seen as a moral imperative for the kinds of reasons given earlier.

Associated with this was the practice of providing what Scott calls 'subsistence insurance', which means a system whereby there was an obligation to assist other households with vital resources such as seed or tools (which were also often shared in terms of their use). The aim again was to prevent particular households from succumbing while others around them did not – it was a case of if there was to be starvation it had to be visited on all with everyone having access to subsistence in normal times. There were strong social obligations towards members of your own household or kin group – this is why poverty relief tended to focus so much on orphans and widows because they lacked this vital familial support. Related to this was the idea that it was wrong to look to maximise profit or return and to act on the basis of what we would now call economic incentives. The laws against arbitrage mentioned earlier were an example of this principle but there were many social practices that also enforced this rule such as the use of force to prevent goods being moved out of a locality to another one where prices were higher, or informal rules against charging a price for a service that was higher than the customary rate.

The central feature was the idea, enshrined in theology in Catholic Europe, of the 'just price'. Quite what this was, was often unclear but the usual practice was for it to be a customary or traditional price. The main point was that a just price was not whatever the traffic could bear, or in other words a price set by the interplay of supply and demand at a given time and place. Rather it was a socially determined price that was produced by a mixture of tradition and local consensus, in accordance with rough and ready principles (Scott 1977). The aim was to stop fluctuations in price and to make them more predictable and hence give people in the metaphorical position Scott describes more security. In reality this often made the community as a whole more vulnerable but the aim again was to ensure that both gains and losses were shared rather than concentrated. The final major element was the idea that certain kinds of contract were simply morally wrong and therefore should not be entered into or enforced if they were. This again was frequently incorporated into the formal law. In the Renaissance in Europe these ideas were subjected to sustained criticism by the Catholic thinkers associated with the School of Salamanca in Spain. They criticized the idea of the just price as commonly understood, arguing that the prices that arose from free exchange were in fact the just price for any good, and that because of this it was wrong for rulers to restrict and limit the formation of prices by legislation that limited exchange. However, although this had an effect on thinking among the intellectual elite, it had little or no effect on either popular attitudes or public policy and legislation.

It is worth pointing out that Scott's account is explicitly a Weberian 'ideal type'. In other words, although the book focuses mainly on Southeast Asia the analysis given is an abstraction from a multiplicity of real world cases, none of which exactly match the abstraction. What the ideal type does do however is to capture the essential qualities of a set of practices that are found in one form or another in almost every society between the advent of agriculture and the start of modernity. Some of its features are always found in every specific case, even if there are few where all are found. Similarly Thompson's studies of England, and others of pre-industrial Europe (for example those of Georges Rude) abstract from a multitude of concrete and varied realities to identify the underlying common principles and practices. (Thompson, 1993) What this shows is that in this regard it does make sense to think of all pre-modern agricultural societies as having some common features. The central ones were the condition of absolute scarcity and the beliefs and practices that came from that (There were others as well but these do not concern us here directly.) (Crone, 2015).

Many people today find this scarcity driven moral economy and the values it embodies highly attractive. However, quite apart from the way it actually perpetuated the very conditions it was managing and dealing with (of which more later), it also had a dark side. The other side of an emphasis on mutual support and opposition to people enriching themselves at the expense of the community (it was thought), was a venomous and envious egalitarianism that hated any evidence of greater success and fortune in others. This was captured in the very old joke about the Russian peasant who when granted a wish said that as he had one pig and his neighbour had two he wished that his neighbour's second pig should die. Some authors such as Samuel Popkin have criticised Scott's ideal type and argued that in fact peasants and other pre-modern people were rational utility maximisers who responded to economic incentives and sought to improve their condition as much as any modern. They were also Popkin argues intensely competitive and often lacking in social solidarity, looking for any chance to get an advantage (Popkin 1992). In fact these two accounts of pre modern society are perfectly compatible. In a condition of rigorous scarcity the moral economy institutions both actually existed and made sense, given the realities but people would also respond to incentives so as to maximize their personal well being, as they always have. In that particular context however this response to incentives was often predatory and exploitative precisely because so much of economic life was close to a zero-sum game due to the great difficulty in increasing output per head.

## The Moral Rules of the Malthusian World

Our ancestors then for most of human history lived in a Malthusian world. Scarcity for them was not the condition of relative non-abundance that it is for modern economists. Rather it was a condition of absolute scarcity and limitation of resources, which meant that the majority of the population lived at the edge of subsistence and that any sustained improvement in the conditions of life for most people was impossible. When conditions did improve the extra wealth was typically absorbed by a rising population and although there were episodes of economic growth these were typically short lived. Given this situation they arrived at the conclusions about the human condition set out earlier, and in all parts of the world developed a series of practices and institutions that regulated economic life. These institutions can be understood in economic terms but were also based on explicitly ethical judgments, hence Thompson's coining of the term 'moral economy' to describe the kind of economic life they sustained.

What though were the ethical principles that our ancestors thought should guide human life given their understanding of scarcity and the actual reality of their world? The first was that self-interest was a morally dubious motivation since to pursue self-interest was almost certain to harm the collective good. In particular it meant that the pursuit of wealth was to be reprobated because it would in many or most cases be acquired at the expense of others. Consequently, a simple and frugal life was morally superior to an affluent one. Another central one was that collective goods and ends should trump individual ones. Seeking to pursue your own vision or goal was not only impossible for most people but regarded as morally wrong because it violated principles of duty and harmed others.

In fact, it was obligations and duties that defined most of your relations with other people. The family in particular was seen in these terms and it created very powerful mutual duties for its members. This was due to a fundamental feature of life in the world of absolute scarcity. In that world it was very difficult, in fact almost impossible, to survive on your own, much less flourish – unless you were a member of the 1% of the time. Being in a household with other people who would share the work was essential for survival, not a lifestyle choice. That is why society was conceived of as being made up of households, not individuals. This in turn explains why widows and orphans were so often the primary objects of charity and poor relief – they had fallen out of the mechanism that protected and sustained them. (This is also why in fairy tales people always remarry after their spouse dies.)

The most important though was that the key to happiness, or at least contentment, was to restrain wants and aspirations and to accept limits. Given the immovable limitations that confronted human beings, to do otherwise was to court frustration and misery in the case of failure and to harm others in the rare event of success. To seek to go beyond or to challenge the structural economic limits of scarcity was to commit the sin of hubris with the inevitable consequence of nemesis in one form or another (Lasch, 1991). What this ethical position meant was that enterprise and acting on or responding to economic incentives, of trying to increase wealth were seen as self-defeating at best, at worst as positively harmful. Of course people did this but this was regretted by most observers of the human condition. Most importantly, it meant that innovation was regarded with intense suspicion and actively hindered and discouraged. All of this had a paradoxical and in many ways tragic consequence.

The institutions and beliefs we have described made sense as a way of coping with the constraints of a Malthusian world. However, they also prevented things, above all innovation, that could have enabled people to escape from that world. Periodically, people seemed on the verge of escaping from this trap and there were episodes of 'intensive' growth driven by innovation (as compared to 'extensive' growth where increased output simply reflects a windfall increase in inputs so that there is no increase in factor productivity). These 'efflorescences' (as Jack Goldstone has called them) can be found in several of the world's civilizations and in different periods (Goldstone, 2002). The most striking, which has attracted much attention, took place in China under the Song dynasty, between 960 and 1276 AD. By the end of that period China was technologically and economically at the level Europe would be in by the end of the eighteenth century and its society showed the kind of technological and economic dynamism and innovativeness that drives modern growth. However, as Goldstone and others have pointed out, these episodes of intensive growth were never sustained: always in the end the underlying practices reasserted themselves and the Malthusian conditions remained in place. China was very a much a case in point as its period of innovation and real growth ended with the Mongol conquest. Even more significantly the dynasty that came to power after the Mongols were overthrown in 1368 (the Ming), and its successor after 1648 (the Qing) both deliberately and systematically reintroduced the economic and moral principles described earlier. In particular they quite consciously sought to inhibit and deter widespread innovation and to discourage economic dynamism and large scale trade. They were successful in this and although until around 1800 China remained by any measure the most advanced civilization on the planet, it never recovered the dynamism and growth of the Song period and remained bound like the rest of the world by the Malthusian limits of absolute scarcity.

## The Great Breakthrough

All the things we have described however began to change in the eighteenth century and this was a change of both material conditions and, more significantly in many ways, of ideas and understandings. In particular the nature of scarcity and the way to respond to it came to be rethought in the writings of early economists. We should not however see this change as the culmination of a process or place it in a teleological account in which human society gradually moves or evolves in a particular direction through stages or steps. What happened was a relatively abrupt and fundamental break or discontinuity in human history, one that might have happened sooner (in thirteenth century China for example) but had not done so for various reasons. The changes in understanding and actions had two aspects. The first was that the way to respond to a condition of absolute scarcity was rethought, in a way that challenged the moral suppositions described earlier. The second and more fundamental one was that the very notion of scarcity was redefined in a way that made it relative rather than absolute because of a new focus upon innovation as the way to respond to the limitations of the natural world and the human situation. This built on the first change and made the moral revolution even more dramatic, a true transvaluation of values even.

In the later seventeenth and early eighteenth century the world was enjoying one of the episodes of increased prosperity that were a recurring feature of world history before modern times. This showed in a growth of world trade and a significant rise in world population. China's population doubled between 1660 and 1760 for example. The reasons for this flourishing were twofold. First of all the planet's climate had improved markedly with the gradual end of the period of cold and drier weather that had been such a feature of the seventeenth century and earlier. More important though was the effect of the discovery of the New World and the new food crops that it provided. The most important was the potato, which massively expanded the 'carrying capacity' of large parts of Eurasia (Salaman 1985). This along with the space opened up in the Americas by the depopulation of the continent by diseases brought there by Europeans created a windfall that made growth possible. If things had continued as before in history, the extra output would eventually be absorbed by the rise in population (as indeed happened in China) and the condition of absolute scarcity would have resumed.

However, what we can observe is two things, the first being the appearance of intellectual movements that challenged the ideas and practices described earlier as being the appropriate way to deal with and respond to scarcity. These appeared in two places at opposite ends of the Eurasian landmass. The first was in Tokugawa Japan. Here the 1690s and 1700s saw the appearance of what was known as Chonindo or 'the way of the townsman' as distinguished from Bushido or 'the way of the warrior'. The movement first appeared in Osaka and was a response to the lowly social status of merchants at the time (in the social structure of Tokugawa Japan they came next to bottom of the social scale and were outranked by peasants and artisans as well as samurai and feudal lords) and the way that the dominant forms of Confucianism deprecated trade and the seeking of profit as base and ignoble. The arguments of the thinkers associated with Chonindo were firstly that the life of trade and commerce was indeed virtuous and compatible with Confucian ethics and secondly that the physical world and creature comforts were morally correct and desirable. The first drew on the idea of moral qualities such as excellence, honesty, dutifulness, and benevolence, all virtues for the Confucian mindset. These were seen to be embodied and realized in particular ways of life and it was argued that to be an honest, enterprising, diligent and hard working merchant or trader was a form of human excellence that embodied them just as much as being a samurai or a craftsman. The second was the basic belief that pleasure and comfort were good and to be sought out. This way of thinking had been put forward before of course, for example by the Cyrenaic school in Greek philosophy as found in the arguments of its founder Aristippus, but the Chonindo movement developed it much further and connected it to an entire esthetic philosophy and notion of taste or refinement. This found expression in the artistic form of ukiyo-e, the well known woodblock prints that portrayed among other subjects the 'floating world' of the pleasure and entertainment districts of Edo (Tokyo) and other Japanese cities.

However, what was to prove at least in the short term the more significant development took place at the other end of the continent, in North-Western Europe and in particular in Scotland. Initially though the first stirrings took place in the Dutch Republic, one of the most commercial and bourgeois societies in history up to that point. For contingent reasons the revolt of the United Provinces against Habsburg rule in the sixteenth century had seen the emergence of a state dominated by the mercantile or regent class. Unlike their predecessors in city republics such as Venice they did not become a kind of mercantile aristocracy but rather continued to espouse and express the way of life and values of the merchant, such as domesticity and material comfort. This can be observed in the art and products of the so-called 'Golden Age' of the Dutch republic, such as the way that painting concentrated on scenes of domestic life and commerce, rather than religion, war, and the chase. Visitors to the Dutch Republic in the seventeenth and eighteenth centuries were all struck by the bourgeois quality of its ways as well as its wealth and productiveness, its relative lack of social distinctions, its intellectual openness, and the forwardness and independence of its women (Israel, 1998).

It was a citizen of that country resident in England who started this particular intellectual revolution. He was of course Bernard de Mandeville. In 1705 Mandeville published a poem of two hundred couplets entitled *The Grumbling Hive or Knaves Turned Honest* and in 1714 brought out a much longer work incorporating the poem called *The Fable of the Bees: Or, Private Vices, Public Benefits* (Mandeville 1988). In this work he took the moral code of moral economy described earlier and retained the content but reversed the evaluation. He argued that it was selfish, self-regarding motives, greed, and the desire to be better off than others that actually led to prosperity and economic flourishing, not just for those individuals but for society in general. In the poem, when the bees became virtuous and opted for a simple and restrained life the result was that the hive as a whole lost its way and became impoverished.

The work had a number of important insights. One, as Hayek has argued, was to identify the principle of spontaneous order in which purposeful acts by individuals created in the aggregate an outcome or order that was not intended or aimed at by any person and was therefore not the motive for their actions (Hayek 1968). The other was that self-interested acts by individuals could produce an unintended and unforeseen outcome that was beneficial for others and for society as a whole (Goldsmith 1985; Hundert 1995; Jennings 2007).

However, Mandeville still accepted that the way of behaving he saw as having beneficial results was morally reprehensible. His deeply cynical argument was that acting badly (or viciously in the language of the time) at a personal level was going to produce a beneficial outcome in the aggregate. Not surprisingly this was very controversial and his work provoked many furious responses and rebuttals. However, he had clearly caught part of the zeitgeist and indeed it is probably an overstatement to say that he was the simple inventor of a new way of thinking. Rather he was one of many authors who took part in an increasingly complex debate about luxury and its effects and about the correct way to understand and evaluate the increased comfort and (as we would say) consumerism of European society at this time. Thus his defence of behaviour commonly regarded as immoral and defence of luxury was also made by the French economist Jean-Francois Melon (Ross 1976). However, Mandeville was one of the earliest writers to make this point and was important not only for what he himself said but because his ideas went on to be developed and amended. The crucial figures here were the early economists on both sides of the English Channel. Particularly important were Smith, Hume, and Turgot.

When we look at Turgot's *Reflections on the Formation and Distribution of Wealth*, Smith's *Wealth of Nations* and *Theory of Moral Sentiments*, and Hume's economic essays we can see a revolution in thinking about scarcity and the human condition that had implications not only for economic policy but also moral understanding. There were two main insights. The first was that even if the amount of productive resources was thought of as fixed it was still possible to maximize the benefits to be gained from the use of those resources by allowing individuals to pursue their own goals even (or particularly) when these were motivated by self interest. The argument was that allowing people to act in this way would benefit others by making the use of the resources available more efficient. As a result prosperity would increase. What this meant was that self-interested behaviour and following economic incentives was no longer seen as inherently predatory or anti-social but as contributing to an unintended but real system of cooperation and sociability. Another result of this, which both Hume and Smith emphasized, was that greater prosperity would have the effect of softening manners and making people less predatory and aggressive towards each other. Luxury in other words would indeed undermine the martial virtues but this was in general a good thing (although Smith did have regrets on this point). In other words even if people were like Scott's peasant, on the edge of subsistence, the way to get into shallower water was to allow the free play of self interest rather than to control it (Hundert 1995; Philipson 1983; Winch 1992).

Smith in particular set out the mechanisms by which this worked, the way that exchange and the pursuit of self-interest increased the division of labour and produced a growing extent of trade and exchange. These, he argued, led to greater prosperity and wealth without anyone being made worse off, but rather with everyone being better off, at least in material terms. This was put in a historical perspective with the argument that the greater prosperity of the eighteenth century as compared to earlier times was due to a gradual increase of things such as trade, exchange, and the extent of market relations. This was probably less true than Smith and others thought and owed more to the windfall benefits of improved climate and the Columbian exchange, as mentioned earlier. However there was an element of truth in this historical account as the hold of 'moral economy' on the thinking and lives of Europeans had lessened since the later seventeenth century. However, this was no different from earlier episodes, such as those of the second century Mediterranean, the ninth century Middle East, and thirteenth century China and might well have ended up the same way. Meanwhile in France the Physiocrats made the achievement of 'opulence' one of the goals of public policy and argued that in that case the traditional moral and legal maxims were self-defeating. For example, Turgot in his *Lettres sur la liberté du commerce des grains* showed that allowing engrossing and arbitrage was in fact the best way of preventing dearth and famine and so undercut one of the central ideas and practices of the moral economy (Kaplan 1976).

## The New Way of Thinking and its Implications

All of that still assumed however that there was a physical limit to productive resources that was very hard to shift. This was indeed the position of most of the classical economists. It was the position of Ricardo for example. However, the intellectual revolution of thinking about scarcity and its moral implications had a second aspect that was genuinely novel. This was formulated by other early economists such as Say and Cantillon in France and Whateley in Britain, who all started a process of radically altering the terms of debate by showing that the actual amount of resources could in a very real sense be increased. Arguably Smith had also pointed in this direction (Lasch 1991).

The thing here was to move from a static model of economic life in which the challenge was to find the optimum use of a given amount of resources to a dynamic one in which innovation and doing more with less were the main features. Again though the way to do this and hence to achieve plenty was by removing the institutions of the moral economy, by allowing things such as exploiting arbitrage and lending money at interest, and by allowing individuals to seek to improve their condition and make the most efficient use of their resources and above all to allow them to take risks and innovate (McCloskey 2010).

The development of economic thinking after the mid eighteenth century meant that scarcity came to be understood in a new way. There had always been a fanciful alternative to the harsh reality of limits in the shape of the mythical land of Cockaigne, a place where there were rivers of wine and lakes of beer, roasted pigeons flying around, and roast pigs with knives and forks in their backs running around while squealing "Eat me! Eat me!" – in other words the state of abundance.

What economics did was to retain the notion of scarcity and in fact make it the foundation of the new discipline while making it something less constraining and absolute. Scarcity now meant that there were indeed not enough material resources, land and time to meet all of the possible uses that they could be put to. This meant that every choice or action had a cost, the foregone next best use of the resource in question and that when weighing up two good or valuable things trade-offs or balances had to be made. However, if the allocation and tradeoffs were made correctly, two things would happen. The first was that resources would be used in a way that maximized the welfare not only of the direct user but also of society in general. The second, new, insight was that this would lead to a process of invention and innovation that created new resources by enabling the same output to be achieved with less inputs and by converting physical things from the category of unproductive and useless to that of productive and useful.

Obviously there had to be some way of allocating resources between uses under these conditions. One would be to have them assigned by rulers, whether a single individual or a group, in other words by the political process of collective choice. The other way was to rely on what Mandeville had first identified, a spontaneous order arising from the aggregation through a social process of many individual choices made by individual actors. Crucially the motivations of those actors were not assumed to be altruistic or communal (even if in some cases they were).

Just as the old idea of scarcity had ethical implications so did the new one. The big result was that from this new perspective on scarcity the institutions and practices of moral economy were seen as not only self-defeating but also morally wrong because they limited individual flourishing and collective well being. In other words, the way that the constraints upon human beings are understood has important implications for moral norms. That is because the way that those constraints are understood has far-reaching implications for what is seen as both possible and desirable for actual human beings living in the real world. Scarcity is clearly one of the most important of those constraints (along with biological ones such as mortality and the limits of human knowledge and reason) and so the way scarcity was understood had major implications for moral reasoning. Self regarding actions were now seen in a new light. They were no longer thought of as inherently questionable and almost always predatory. Rather a distinction was made between following self-interest in a way that was indeed predatory on the one hand and doing so through trade and exchange and peaceful interaction on the other. The focus was now on the form and consequences of actions rather than the motive. Following Smith's arguments in *Theory of Moral Sentiments* self-interest came to be understood not as something anti-social and opposed to sociability but as in fact the foundation of society and social relations through the mechanisms of sympathy and the desire for approbation.

In this new way of thinking certain practices were evaluated very differently. Trade, commerce and business were now reputable and even virtuous activities with a moral content, as the thinkers of Chonindo were also arguing on the far side of the world (McCloskey 2010). Above all, change and innovation were thought of as good and seen in a positive light rather than being seen as at best risky at worst recklessly self-aggrandising and anti-social. If traditional societies were neophobic then we can truly say that modern societies are increasingly neophiliac.

Perhaps the most profound change was to abandon the old belief that happiness was to be achieved only, if at all, through self-denial and the limiting of appetite. Rather it was through allowing those appetites expression in a way that created wealth and comfort and, more importantly, led to self-realisation. It is important to realize that this was not an ideal of simple hedonism, rather it was one that held that the goal of life was the peaceful and fullest realization and actualisation of the individuals who composed society (Lasch 1991). Luxury was now seen in a positive light rather than as a corrupting influence. Smith added the crucial insight that it was not the consumption of luxuries by the wealthy that drove economic activity but the mundane consumption of everyday products by the poor.

What all of this meant was that the morally good community was no longer one of duty and sharing (usually forced) but rather one of a process of individual self-realisation producing a system of unplanned and unintended cooperation (a 'great society' in Hayek's phrase). The result given certain conditions would be a maximisation of human flourishing but with this being individuated rather than communal. Arguably there was a crucial assumption in all this, which was that the processes would generally lead to a benign overall outcome rather than a malign one. For Smith and his contemporaries this was because the universe was thought to operate according to principles that made it so, in a secularized version of the monotheistic doctrine of providence. Subsequently this was secularized, in the thought of a whole range of people from Spencer to Marx with the natural order playing the part formerly taken by providence or a designer deity. However even this was not essential for the argument because even if one thought that this system could often produce undesired bad outcomes it was still better than the previous way of thinking and organizing affairs.

As has been noted already, not everyone has accepted the new way of thinking. It seems there are many who still find the model of a 'moral economy' attractive and even inspiring,who think that business and commerce as activities are entirely extractive rather than wealth creating. Given what we now know this way of thinking can best be described as anti-economics rather than as a different kind of economics. (It is also not a view that Marx would have agreed with to put it mildly.) This is a vision of shared poverty in a world of subsistence with little innovation as attractive. This can no longer be justified as a reaction to or reasonable reading of the reality of the world.

## The Malthusian Reaction

No sooner had this revolution in understanding taken place than there was a reaction against it that reasserted the idea of categorical limits and constraints with all of their moral implications. The originator of this was of course Malthus although other early nineteenth century thinkers such as Sismondi also took this line in the great arguments of the 1820s. Malthus analysed the condition of human beings for most of history since the advent of agriculture with a simple mathematical model. He argued that while food output could only increase arithmetically (2,4,6,8…) population increased geometrically (2,4,8,16…). This meant that absent checks either natural (famines and plagues) or artificial (abstinence and delayed marriage) human population would always tend to outstrip the supply of food. This analysis could be extended to any kind of production – food supply was simply the cutting edge. Ricardo then added the principle of diminishing marginal return, which meant that even the arithmetic growth of supply would eventually level off. This led to a gloomy view of the human prospect in which the normal and also long run state of affairs was to have human population at just under the maximum level that resources would support. There were many critics of Malthus at the time but it is fair to say that he and his supporters had the better of the debate at the time (Mayhew 2014).

The result was that the more radical and optimistic versions of the new way of thinking about scarcity as put forward by Smith himself and others such as Say, Godwin and Condorcet were qualified for many years. The mainstream of classical economics, particularly in Britain emphasized more the first argument that there was still a kind of limit to resources and it was a matter of using them more effectively while paying less attention to the more radical dynamic idea that they could actually be increased. Almost all of the orthodox classical economists also argued that eventually the process of growth would end and we would arrive at a steady state economy where conditions would once again improve only slowly if at all.

(Wrigley 1994) (For many, such as J. S. Mill, this made birth control a vital necessity to restrain population growth and stop human numbers from pressing as hard against the Malthusian constraints as they would otherwise do).

Eventually, however, economic thinking shook off its Malthusian hangover, from about the middle of the nineteenth century onwards. The ideas of innovation, and of scarcity as a constraint that requires choice and tradeoffs but which can be massively mitigated by innovation, became dominant. This was reflected in a dramatic shift in moral reasoning as the older ways of thinking were challenged and rejected. And how wrong Malthus and his supporters proved to be! The history of the world since his time is in fact a complete contradiction of his gloomy prognostications (Ridley 2010). On the other hand he was undoubtedly one of the great historical sociologists. For all of human history from the advent of agriculture up to the later eighteenth century living standards fluctuated but barely rose in the longer term. What improvement there was, was so slow as to be imperceptible for any one lifetime. In this world moral economy was both a reaction to a generally understood hard reality and a self-fulfilling prophecy that kept that reality in existence. Malthus and others like him thought that to seek to escape this trap was to court disaster and for most of human history his view was correct, as the litany of collapsed societies and civilizations reveals. Since his time however there has been a revolutionary transformation in human conditions with a sixteenfold rise in average incomes for the planet as a whole. In 1880 by the World Bank's estimate 80% of the world's population were living on the edge of subsistence, in the world Scott describes. That figure is now less than 10% according to the most recent World Bank report. We still live in a world of scarcity that constrains us in many ways but our understanding of that reality and the constraints it imposes has been transformed. This has brought about not simply a new physical world but a new moral world as well.

## Conclusion

We now live then in a very different world from the one our ancestors inhabited. We are much richer than they were, by a factor of sixteen on average. The much greater wealth also makes possible a far wider range of possibilities and life paths for people than was the case for most of history, even in poorer parts of the world. This in turn means that our social relations and interactions are also different in many ways from the norms of even as little as a hundred and fifty years ago. The reason for these is that both the understanding of, and the actual condition of, scarcity have been transformed. This transformation has many causes but one crucial contributor is the process examined here, by which there was an intellectual breakthrough (alongside others such as a technological one) that transformed human's understanding of what scarcity is and what moral implications it has for human beings and human life. This means, to repeat, that not only our physical conditions have altered, we live in a new moral world as well, which we are still exploring.

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## Ekonomikos istorija, stoka ir moralė


*Santrauka*

Dėl patiriamų sunkumų siekiant tvaraus produktyvumo augimo žmonės didžiąją istorijos dalį gyveno Malthuso teorijos pasaulyje – nuolatinės ir neįveikiamos stokos būsenoje. Taip atsirado moralinių vertinimų ir atsakymų sistema, kuri pasireiškė įvairia formalia ir neformalia praktika bei institucijomis. Paradoksalu, tačiau šis atsakas blokavo inovaciją – pagrindinį kelią ištrūkti iš neįveikiamos stokos pasaulio. XVIII a. pabaigos ir XIX a. pradžios intelektiniai proveržiai iš dalies pakeitė žmonių suvokimą apie stoką ir būdus jai įveikti ir taip prisidėjo prie fizinės bei moralinės pasaulio raidos iki pat šių dienų.



Raktiniai žodžiai: Malthuso teorija, papročių ekonomika, inovacija, verslumas, ekonominė etika, teisinga kaina.