

Publick Stews and the genesis of public economics

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Abstract

In 1724, the anonymous essay *A Modest Defence of Publick Stews* (brothels) arrived in the bookshops of London. Now the essay is widely believed to be the work of Bernard Mandeville. In true heretical fashion, Mandeville detailed the social problems arising from the market in prostitution of his day. The genius of the work comes from the sophisticated tools, previously thought to be the product of the twentieth century, he utilized to analyse the market. These tools included the market failures of externalities and asymmetric information; government failures due to unintended consequences of public policies; and a proposal for regulating the market designed to alleviate these failings. Included in the proposal was a tax consistent with the principles of a first-best policy.

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1. Introduction

Bernard Mandeville (1670–1733) is best known to economists through his poem *The Grumbling Hive*, first published in 1705. This poem later became the foundation for his masterpiece, *The Fable of the Bees: Or, Private Vices, Publick Benefits* (1714–1729 [1988]) which was published over several editions. The poem tells the tale of a thriving hive of bees within which individual bees serve their own interests (here called vice) which unintentionally serve the interests of the hive. The fame amongst today's economists results from the fact that this work argued that the seeking of individual self-interest can result in 'Musick Harmony' for society. As the poem states, 'Thus every Part was full of Vice, Yet the whole Mass a Paradise. . . The worst of all the Multitude Did something for the Common Good' (Mandeville, 1714–1729 [1988] ch. I, p. 24).¹ Importantly for what will be argued here, the message of the poem does not end as a success story where 'the very Poor Liv'd better than the Rich before' (ibid., p. 26). Soon 'Rogues' promise to 'rid The bawling Hive of Fraud', and in time virtue takes over in the hive and the bees lose their selfish and acquisitive behaviour. As demands fall, so does commerce along with the wealth and technology

¹ The punctuation, spelling, and italics in all quotations are original.

that business creates: ‘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 ’em admire their homely Store, and neither seek nor covet more’ (ibid., pp. 34–35).²

The Grumbling Hive was clearly written by a man who took the idea that self-interest can be aligned with the promotion of social interests seriously. This focus on self-interest had a profound effect on how Mandeville viewed the causes and consequences of social problems of the day. He realized that government policies formed the institutional milieu within which individual decisions are made, and if one astutely follows the incentives, one will understand the intended and unintended results of any policy. When he later analysed the workings of the market for sex in *A Modest Defence of Publick Stews* (1724 [2006]), he used the lens of incentives from which to view the proceedings.³

A Modest Defence has been called ‘one of the most influential publications on prostitution in its century’ (Primer, 2006, p. 1) and has been analysed as such by historians, literary historians, and critics (see, e.g., Bullough, 1964; Cook, 1975; Mandell, 1992; Primer, 2006). However, it seems to have escaped the analysis of economists and historians of economic thought. In this article, I argue that this has been a significant oversight because Mandeville’s analysis of the problems in the market for sex (private and commercial) represents a relatively complete and early analysis of markets from the perspective of market and government failures. In particular, his analytical tool-kit included the concepts of externalities and asymmetric information, as well as government failures due to unintended consequences of public policies. It also included a policy proposal designed to eliminate these failures by reducing the extent of externalities and other problems associated with asymmetric information in the market and ensuring that the price of sex reflects the full social costs of commercial sex.⁴

- 2 The best introduction to the economic ideas of Mandeville as well as the numerous assessments of those ideas by economists is Landreth (1975).
- 3 *A Modest Defence of Publick Stews* was published anonymously and Mandeville never publicly acknowledged authorship. However, scholars of Mandeville provide convincing evidence from textual analysis that he is the author (see, e.g., Kaye, 1921; Cook, 1975; Primer, 2006). For the purposes of this article, I assume that Mandeville is the author. The phrase ‘market for sex’ is ambiguous. For my purposes, the term is meant to encompass all interactions between men and women involving sex. For Mandeville, this included prostitution within brothels and by self-employed prostitutes, premarital sex, adulterous sex, and sex within marriage.
- 4 Before continuing, I should define, for the purposes of this article, the terms ‘market failure’ and ‘government failure’. Governments can fail along several lines, for example, when corrupt officials purposely enact policies that are intended to enrich themselves at the public’s expense, which economists have recognized at least since Adam Smith (Medema, 2009). I assume the existence of benevolent leaders attempting to enact policies in the public interest. Mandeville made this assumption as well, ‘Publick Welfare is, or ought to be, the whole End and Scope of their [the legislature’s] Actions,’ and ‘the Welfare and Happiness of the Community is, or ought to be, the only End of all Law and Government’ (Mandeville, 1724 [2006], pp. 90 and 91). The ‘ought to be’ that he includes in both statements indicates that he did recognize the possibility of government failure as emphasized by public choice theory associated with principal-agent problems, but Mandeville’s analysis in the essay assumes that governments try to increase the welfare and happiness of society. Government failure is thus defined as a situation where a government policy fails to improve social welfare due to unintended consequences of the policy. Mandeville does not reference the

2. Assumptions and empirics

Mandeville began his analysis with foundational assumptions on the individual interests driving the market. These assumptions condition much of his analysis of the market failures and the eventual policy prescriptions for the market. Additionally, he had strong priors that were developed from empirical observations of the current policies regulating the commercial market for sex. His attitude towards the policies of his day in England was consistent with his assumptions of the preferences of market participants as well as the empirical record of past and current policies.

Since we are dealing with a sexual issue, it is reasonable to start with Mandeville's assumptions regarding the preferences for sex and how these differ between men and women. First, both men and women are seen as having innate desires for sex that arise from the necessity to perpetuate the species. Men are assumed to be so insatiable and quickly aroused that they spend most of their waking hours thinking about sex and scheming over ways to get it. For men, the desire for sex is a 'violent Love for Women [that is] born and bred within us; nay, it is absolutely necessary to our being born at all . . . Nature never fails to furnish us largely with this Passion, tho' she is often sparing to bestow upon us such a Portion of Reason and Reflection as is necessary to curb it' (Mandeville, 1724 [2006], p. 58). Women are also assumed to have a 'violent' desire for sex, but the strength of this desire differs greatly between women and is slower to develop (compared with men) in nearly all women. For women, Mandeville sees that society has also placed a burden in acting on their desires that is not shared by men: that of maintaining chastity. 'To counterbalance this violent natural Desire, all young Women have strong Notions of Honour carefully inculcated into them from their Infancy' (ibid., p. 76). In fact, the risks that women take to fulfill their desires are considered testament to the strength of those desires. 'There requires no more to convince us of the Violence of Female Desire, when raised to a proper height, but only to consider, what a terrible Risque a Woman runs to gratify it. Shame and Poverty are look'd upon as Trifles, when they come in Competition with this predominating Passion' (ibid.), for 'when this Passion is once rais'd to the *critical* Height, it is absolutely irresistible' (ibid., p. 81). Thus, as with *The Grumbling Hive*, Mandeville starts from a basic assumption that individuals follow self-interest and details the foundations of those interests.⁵

Coasean-type of government failure associated with the assigning of property rights. Similarly, market failure is defined as a situation where a market fails to improve social welfare due to some form of market distortion, either endogenous or autonomous (i.e., policy imposed) (Bhagwati, 1971). Today we use the term 'maximize' rather than 'improve', but a clear statement of maximization is not present in Mandeville's work.

- 5 For Mandeville, the maintenance of chastity was not a natural passion on par with the 'violent' desire for sex. It was based on the fear of being shamed—and its associated social costs—that provided the self-interest towards chastity. This represents a specific application of a general principle of the avoidance of being shamed that he developed in *The Fable of the Bees* (Force, 2003). In *The Fable*, Mandeville describes the 'Superlative Horror against Shame' as often being stronger than the fear of death (Mandeville, 1714–1729 [1988], ch. I, p. 210). In the *Modest Defence*, the fear of being shamed is strong amongst married women and virgins, but the shame designed to counter the 'Violent natural Desire' will ultimately fail in many cases.

In the market for sex, the interests of men and women are seen as differing because of innate differences in base preferences and social cost differentials between the sexes.⁶

The structure of this market is determined by government policy. Near the end of the text, Mandeville details a short history of prostitution in England. Historically, prostitution was legal in many parts of England, particularly in Southwark where taxes from the brothels were paid to the town and Church (ibid., p. 94). Following the Reformation, however, a policy of zero tolerance for prostitution was set and ‘the *Stews* are destroy’d; those publick Nusances are demolish’d; Whoring is attack’d on all hands without Mercy’ (ibid., p. 97). As with his famous poem, those interested in eliminating vice had their day. ‘And what then?’ Mandeville satirically asks his reader. Was ‘lewdness’ reduced by this policy of prohibition? A resounding no was his obvious answer. Because the policy diametrically opposed the interests of both men and women regarding sex, the result of the policy was that ‘we are at this present Writing as bad as we can be’ (ibid., p. 98).⁷ The benefits of legal prostitution were also discussed in *The Fable of the Bees* under the more general topic of how seemingly opposing forces can actually help each other. Specifically, he mentions the brothels of Amsterdam as promoting the ‘Innocence of Virgins’ and especially the brothels of Italy where the ‘Toleration of Strumpets [female prostitutes] is yet more barefac’d’. Here, in addition to the benefits of ‘publick stews’ providing ‘for the Safety of Women of Honour’, the brothels were a ‘Body in the State, and are under a Legal Tax and Impost’ (Mandeville, 1717–1729 [1988], ch. I, p. 98). Both benefits became centerpiece in his own proposal as outlined shortly.

What Mandeville endeavoured to show was that a policy of public brothels (or stews) that were carefully regulated and monitored by the government would put an end to all of the ill effects of overly restrictive governmental policies and other distortions inherent in an improperly regulated market for sex.

3. Causes of market and government failures

In the libertine market for sex that Mandeville described, prostitution was illegal but widely practiced and fornication beyond prostitution was common.⁸ Mandeville saw this market as failing to promote society’s best interests for many reasons. He characterized most market failures as problems due to asymmetric information and externalities, both of which are leitmotifs in Mandeville’s essay. In turn, government failure occurred when public policies

6 Folbre (1992, p. 105) finds it odd that the classical economists were reluctant to ‘direct their dispassionate, scientific gaze at issues of sexual rationality and self-interest’. Clearly this oddity does not apply to Mandeville.

7 This argument that public policy needs to be consistent with human nature is also made in the *Fable*. As Landreth (1975, p. 203) makes clear, ‘Government cannot change the basic nature of man, but must understand his nature in order to turn it into public advantage . . . any attempt to change the nature of man is doomed to failure’. With specific application to fornication in *A Modest Defence*, Mandeville stated that the ‘sin consists in a full Intention to gratify a Lustful Desire; which Intention the *Legislature* cannot possibly prevent’ (Mandeville, 1724 [2006], p. 91). Also see the same argument in the *Fable*, Remark H (Mandeville, 1714–1729 [1988], ch. I, p. 95). For Mandeville, human nature is immutable, ‘since the Fall of Adam’, and therefore, outside the potential reach of public policy. See Force (2003) for a discussion of stable preferences in Mandeville’s work.

8 This characterization is consistent with how historians portray the period (Stone, 1977; Dabhoiwala, 2000).

failed to properly understand the individual incentives of men and women regarding sex, leading to highly destructive unintended consequences of those policies.

3.1 Asymmetric information

Mandeville saw problems associated with asymmetric information arising from men and women, but within different contexts. One of the greatest social concerns of the day was the so-called French pox or syphilis, the spread of which Mandeville saw as resulting from unregulated prostitution. He describes prostitution as a thriving market in syphilis, whilst gonorrhoea was seen as an important but lesser problem. With full tongue-in-cheek, Mandeville gave his own estimate of the relative prices, 'three Claps shall be reckon'd equivalent to one Pox' (ibid., p. 62). Fear from contracting syphilis caused a tremendous decline in the demand for prostitutes ('the most sensible Blow they [prostitutes] ever felt, was the Invasion of the *French-Pox*'; ibid., p. 96), but it did not eliminate prostitution entirely.⁹ Whilst sexually transmitted diseases were known to be transmittable from men to women, the major source of the problem was seen as coming from female-to-male transmission. The reasons for this were twofold. First was that a single woman (here taken to be a prostitute) could more easily have sex with multiple men than the other way around. 'We [men] are not like Cocks or Town-Bulls; who have a whole Seraglio of Females entirely and solely at their Devotion; on the contrary, one industrious pains-taking Woman, that lays herself out that Way, is capable of satisfying several rampant Males' (ibid., p. 65). Moreover, a female prostitute has both greater capacity to hide the disease and a strong interest in doing so. An infected prostitute will need to work to raise money for treatments, a 'Surgeon's Fee', and may thus, 'counterfeit Pleasure when She really receives Pain' (ibid.), thus 'the spreading of this Distemper must be owing to the Neglect of Cure in the Woman' (ibid., p. 66). A prostitute has the incentive and ability to hide her infection from her clients, thereby spreading the disease more extensively.

The information problem coming from males represented a deception of the heart causing the 'debauching [of] *Married Women*', and the 'Crime of debauching young *Virgins*' (ibid., pp. 59 and 60). In either case, all the man wants is sex and his main tool in obtaining it is deception, making a woman believe that he is interested in making a commitment to her in the process of 'gratifying this violent Passion'.

The Methods that are Necessary to be taken, before a Man can have such an Action in his Power, are themselves Criminal; and it shows a certain Baseness of Mind to persuade a Woman, by a thousand solemn Vows and Protestation, into such a good Opinion of you, and Assurance of your Love to her, that she trusts you with all that is dear and near to her; and this with no other View but the Gratification of a present Passion. (ibid., p. 60)

The costs of this deception are seen as extremely detrimental to society as they destroy marriages and leave young women whose chastity has been lost with no options other

9 Asymmetric information occurs when one party in an exchange possesses more knowledge than the other party, resulting in market failures such as adverse selection, moral hazard, and decreased trade via the lemons principle. This principle describes the general condition of the prostitution market where the inability of customers to determine which prostitutes were disease-free caused a dramatic decline in the overall market. For Mandeville, this in turn caused an overconsumption of sex from virgins and married women from a social welfare perspective.

than a life of a '*Publick Courtezan*'.¹⁰ For the married woman, the actions of the male suitor

... tends to corrupt a Woman's Mind, and destroys that mutual Love and Affection between Man and Wife, which is so necessary to both their Happiness. Besides, the Risque run of a Discovery, which at least ruins a Woman's Reputation, and destroys the Husband's Quiet ... the Consequence is shockingly fatal [resulting in] a never-ceasing Misery, not to be imagin'd but by those who too fatally *feel it*. (ibid., pp. 59–60).

In both cases, Mandeville describes market failures in that the party with the greater information bears less risk in the transaction than the person with less information and benefits from the trade at the expense of the less informed party. In the case of the prostitute, she bears no additional risk of contracting syphilis but gains by subjecting the risk to the client. With the male suitor, the woman risks marriage, the costs associated with the loss of virginity, and the general loss of reputation, whilst the male risks little. In both cases the result is that less of the most socially beneficial form of sex, that is, within marriage, occurs. Moreover, Mandeville describes these in generally non-moral terms. He does not, for example, scold the prostitute but describes the situation in terms of incentives that are created in the market under the current policy regime. He writes in terms of following the individual incentives. Given the self-interests of the individual who is put position A, the behavioural result that one should expect is B, and the negative implications for social welfare are C.

3.2 Externalities

Whilst the deceptions from men and women in markets for sex have negative consequences for the individuals involved in the exchange, the extent of societal problems is exacerbated by the resulting externalities. Clearly, the problems of cuckoldry are felt by the husband and those of 'open theft' on the part of young women discarded by their parents are felt by victims. As for sexually transmitted diseases, the micro externality is that they are transmitted onto others who are innocent of the original sin. 'What makes this Mischief [syphilis] the more intolerable, is that the Innocent must suffer by it as well as the Guilty: Men give it to their Wives, Women to their Husbands, or perhaps their Children; they to their Nurses, and Nurses again to other Children; so that no Age, Sex, or Condition can be intirely safe from the Infection' (ibid., p. 56).

Macro externalities involve population and industry. Like many other writers prior to Malthus, Mandeville believed that 'the Prosperity of any Country is allow'd to depend' on the size of its population, and that an improperly regulated market for sex caused population decline.¹¹ The sources of the decline were infanticide, abortion, and sexually transmitted diseases. With regards to the former, Mandeville saw that existing laws against infanticide and abortion were strong but ineffective given the negative social consequences of having bastard children (ibid., pp. 56 and 68). For sexually transmitted diseases, the problem was that they left men less able or unable to produce healthy offspring 'by ruining young Mens Constitutions so much, that, when they marry, they either beget no Children,

10 Mandeville is clear that the costs of lost virginity are extreme since these young women 'are utterly abandon'd by their parents, and thereby reduc'd to the last Degree of shifting Poverty; if their Lewdness cannot supply their wants, they must have Recourse to Methods more criminal, such as *Lying, Cheating, open Theft, &c.*' (ibid., p. 63).

11 The connection between prosperity and a large population, and the public interest in the encouragement of procreation was well known in Mandeville's time through the writings of William Petty (Letwin, 1963; Folbre, 1992).

or such as are sickly and short-liv'd' (ibid., p. 68). Solid marriages were seen as having positive macro externalities because this institution best produced healthy and well-educated offspring, and that 'all Sorts and Kinds of Debauchery whatever are Enemies to this State [marriage]' (ibid., p. 69).

In analysing the effects on industry, recall two things. First, Mandeville considered a thriving business sector to be the 'main Support of any . . . Nation' (ibid., p. 56), and second that a man's sex drive is so strong and ever-present that he will do whatever is necessary to obtain sex. With prostitution outlawed and dangerous to pursue given the presence of syphilis and gonorrhoea, men needed to spend too much time and money procuring sex from other sources. It is, after all, time intensive and expensive pursuing all those virgins and married women. None of this matters to the sex-driven male for, 'once Men suffer their Minds to be led astray by this unruly Passion, no worldly Consideration whatever will be able to stop it... there naturally follows a Neglect and Contempt of Business' (ibid.). So when men are too busy seeking sex, the industrial fountain of national prosperity suffers.

3.3 Government failure

For Mandeville, government policies needed to be consistent with human nature for them to be successful. Failure to understand this led to a host of problems because of the unintended consequences arising from perverse incentives created by the policies. Most of the social problems we have documented above fall into this category since they result from the zero-tolerance policy regarding prostitution that had been set following the Reformation. The main exception to this was the problem associated with syphilis, which Mandeville believed first arrived in England from France and was transmitted mainly through the brothels.¹²

Mandeville also listed policy options other than his proposal associated with legalization and regulation of prostitution open to the legislature to deal with the social problems associated with the market for sex. He started by reiterating his belief that young men have a desire for sex that is 'much stronger, and more violent, than for the Enjoyment of any thing else in this Life' (ibid., p. 81). These men will 'gratify these Desires, unless the *Legislature* can affix such a Penalty . . . that the Apprehension of the Penalty may give their Minds more Uneasiness, than refraining from the Gratification' (ibid.). For this task, Mandeville believed that the legislature had three broad tools: shame, poverty (fines), and bodily pain (corporal punishment) (ibid.).

Shame was a non-starter for Mandeville because he felt that the moral suasion capabilities of the legislature were extremely limited. Young men sanctioned or shamed by the government will just boast of it since it is 'a Crime which meets with so favourable a Reception in the Eye of the World' (ibid., p. 82). For young men, this would be seen as an additional source of bragging rights as a 'Rake'.¹³

Apparently, the subject of fines paid by a man to an 'offended' woman had been proposed or discussed in some circles 'to Repair the Woman's Damages'. After discussing several largely bureaucratic problems that make such legislation unworkable, he highlighted an incentive problem associated with the proposal. The fine would increase the immoral sex that legislature was trying to control because it gives an increased incentive for women

12 According to [Primer \(2006\)](#), Mandeville's account of the arrival and spread of syphilis was consistent with the predominant views at that time.

13 Note that this argument also highlights the tremendous social cost differences for non-marital sex between men and women.

to have sex. Moreover, it would result in many false accusations. ‘Not to mention its being an actual Encouragement to transgress, this Recompence would only be a Means to promote a Multitude of false Accusations . . . when there is no Opportunity of detecting the Fallacy’ (ibid., p. 83). Along with corporal punishment short of the death penalty, the basic idea of fines was seen as being an ineffective deterrent given the strength of men’s desires. ‘What Fine can we propose as sufficient to deter Men, when there are so many that squander away their whole Fortunes upon this sole Gratification? And what Corporal Punishment, on this side Death, can we find out equivalent to a *Pox*, which they every day run Risque of?’ (ibid., pp. 83–84) Again, the fundamental problem with these proposals is that they fail to properly consider the interests and motivations of men and women, and therefore fail to understand their ineffectual nature and the perverse incentives they create.

Generally, Mandeville seems to have believed that the government learns best practices through the enactment and removal of policies such that the secondary effects causing the failure can be eliminated over time. As he stated, ‘no *Society* ever fram’d a compleat Body of Laws at once, till unforeseen Accidents had taught them Foresight’ (ibid., p. 62). Clearly, the source of government failure was the unintended consequences of public policies. In the *Fable*, Mandeville famously wrote that ‘Private Vices by the dexterous Management of a skillful Politician may be turned into Publick Benefits’ (Mandeville, 1714–1729 [1988], ch. I, p. 369). Economists have debated the exact meaning of phrases such as this at least since Smith in *Theory of Moral Sentiments*.¹⁴ The analysis from his *Modest Proposal* may add a new chapter to this debate. Within the specific context of the market for sex, he equated dexterous management to the enactment of policies that do not generate the secondary effects that arise from the creation of policy driven perverse incentives.

4. Publick stews are the answer

In *A Modest Defence*, Mandeville sees society as composed of three groups; men, female prostitutes, and women who are not prostitutes.¹⁵ The social problem was that the policy of prohibition was incompatible with the interests of all three groups. Given the natural preferences of both men and women towards sex and the societal costs of non-marital sex for women, Mandeville posed the following problem: ‘since few or none of them [the plethora of problems arising from the market for sex] are the necessary Effects of Whoring, consider’d in itself, but only proceed from the Abuse and ill Management of it; our Business is certainly to regulate this Affair in such sort as may best prevent these Mischiefs’ (ibid., p. 57). His proposal was to employ highly regulated publicly licensed brothels to serve the commercial market for sex.¹⁶

14 See, for example, Viner (1732 [1953]) who interpreted ‘dexterous Management’ as a strong call for government intervention versus Rosenberg (1963) and Hayek (1978) who interpret it in a more Smithian manner as consisting of the development of laws determining the rules of the game for market participants.

15 My description removes language that would be offensive to many readers, however, readers of Mandeville (1724 [2006]) should be aware that he utilized language typical in that period of referring to all sex outside of marriage as ‘whoring’ (Dabhoiwala, 2000, p. 87).

16 I have been detailing the market failures associated with prostitution, but at its core, Mandeville saw it as being similar to any non-coercive market in that the participants come together freely and engage in a mutually beneficial exchange. By engaging a prostitute, the ‘Mischief a Man

Mandeville's plan was extremely detailed, and it is still a matter of controversy as to how serious he was with respect to some of its details (Primer, 2006). For the present article, I highlight the broad tenets of his plan and leave the details to the interested reader. Broadly, his plan was to set up state-run brothels that charged a range of prices for various services based largely on the desirability of the prostitute. The brothels were to be clean and provide a safe working environment for the prostitutes. The prostitutes would be checked often for syphilis and gonorrhoea by staff physicians. Prostitutes found to be infected would 'be sent to the *Infirmery*, and cured at the Publick Charge' (ibid., p. 62).¹⁷ Thus, whilst Mandeville assumed that a prostitute could hide an infection from clients, he assumed that it was detectable by a medical examination. Any complaints coming from prostitutes or clients would be handled by a board that would hear the complaints and 'see that each House punctually observes such Rules and Orders as shall be thought necessary for the good Government of this Community' (ibid., p. 61). Additionally, the state should set up a system for caring for and educating the children produced by the prostitutes. There was also recognition that a prostitute's working life was limited as older prostitutes stopped being desired by clients. Therefore, a pension plan should be set up to look after the aged ex-prostitutes or 'superannuated Courtezans'.¹⁸

The funding for this superstructure of the market was to come from a tax to be paid by the customers of the brothels. The tax was to be set such that the price of sex covered the full social cost of commercial sex. The tax would be set to 'not only pay the Commissioners Salaries, Surgeons Chests, and other Contingencies, but likewise establish a good Fund for the Maintenance of Bastard-Orphans and Superannuated Courtezans' (ibid., p. 61).¹⁹ Mandeville demonstrated a solid understanding of what became the principle of first-best policy of taxing the source of the externality rather than creating a countervailing distortion in another sector (Bhagwati, 1971). Here he provides a concrete example of a principle that

does . . . is entirely to himself, for with respect to the Woman, he does a laudable Action, in furnishing her with the Means of Subsistence, in the only, or at least most innocent way that she is capable of procuring of it' (ibid., p. 59).

- 17 The idea of a cure for gonorrhoea or syphilis in the early 1700s may sound fanciful, but there was a belief amongst physicians such as Mandeville that useful treatments did exist. For an extended discussion, see Turner (1717). Although available, medical treatments alone could not be relied on to maintain a healthy population. The 'Relicks of Venereal Cures' left bodies 'enervated' (Mandeville, 1724 [2006], p. 57).
- 18 With this last part of the plan, Mandeville was acknowledging a reality that it was difficult for prostitutes to re-enter the rest of society and find employment elsewhere. 'They seldom or never change that Course of Life for the better, and if they should [try], they can never recover that good Name, which is so absolutely necessary to their getting a Maintenance in any honest Way' (ibid., p. 59). Because their employment possibilities were so limited, it was a job of the state to step in and provide for them. Mandeville also discussed the need to keep unlicensed prostitution illegal. On this, he seems to change his opinion in various parts of the essay. First, he considers such laws to be absolutely necessary, but later makes a cost-benefit analysis on behalf of potential clients and concludes that such laws would be unnecessary because men would necessarily seek out licensed establishments because of their cleanliness and the decreased risk of contracting syphilis from the publick stews (ibid., pp. 65, 86).
- 19 Taxes actually differed based on the price associated with the 'Beauty, or other Qualifications' of the prostitute and were unit taxes (ibid., p. 61). The differential tax that does not seem to be based on the extent of the externality is consistent with either a benefits or ability to pay principle of taxation. Based on statements made in the text, Mandeville had both in mind (ibid., pp. 60–61).

he developed in *An Essay on Charity and Charity-Schools* where he analogized the workings of proper public policy to that of a skilled physician: 'Sound Politicks are to the Social Body what the Art of Medicine is to the Natural, and no Physician would treat a Man in a Lethargy as if he was sick for want of Rest, or prescribe in a Dropsy what should be administered in a Diabetes' (Mandeville, 1714–1729 [1988], ch. I, p. 322). As the skilled physician treats the ailment directly, so the skilled politician develops policies that directly counter the market failure. For example, if the issue is the externality associated with a socially transmitted disease arising from unregulated prostitution, it is best to tax the prostitution market directly versus raising money to pay for treatments through tariffs, for example.

Additionally, it should be noted that Mandeville emphasized the interests of the prostitutes as a core element of the plan.²⁰ He noted the women must not be forced to have sex with any particular customer, and the 'Mistress' or manager in charge of each house must be able to respond to any violence by calling for police assistance, which presumably would not be the case if brothels were illegal.

For the better Government of the *Society*, it will be necessary that the Mistress have an absolute Command in her own House, and that no Woman be suffer'd to go abroad without her Leave. No Woman must be suffer'd to lie within the House, nor any young Children admitted under any Pretence. No Musick or Revelling to be allow'd in any Room, to the Disturbance of rest. No Gentleman disorderly or drunk, to be admitted at an unseasonable Hour, without the Consent of the Mistress: And, in case of Violence, she must be empower'd to call the Civil Aid. (Mandeville, 1724 [2006], p. 61)²¹

Although Mandeville's plan was clearly meant to improve the lives and working conditions of prostitutes, the question remains: how does it improve social welfare generally by improving the well-being of men, and women who are not prostitutes? I analyse this question in terms of the extent of externalities and asymmetric information.

Problems associated with asymmetric information that we have highlighted regard the hiding of a sexually transmitted disease to clients by prostitutes and the deceptions of the true intentions of men in their efforts to obtain sex from married women and virgins. With respect to the former, the new system would give prostitutes a positive incentive to disclose an infection, not only to obtain a rapid no-cost cure but also due to punishments in the plan for actively hiding an infection. 'For the *Society's* Security in Point of Health, it must be order'd, That if any Gentleman complains of receiving an Injury, and the Woman, upon Search, be found tainted, without having discover'd it to the Mistress, she shall be stripp'd and cashier'd' (ibid., p. 62). This penalty combined with the free treatments was designed to eliminate any positive incentive on the part of the prostitute to gain from her differential

20 One of the most liberal elements in Mandeville's writing is that he was relatively unique amongst social theorists in that he actually showed concern for the welfare of prostitutes (see *Primer*, 2006, pp. 21–22). This tendency to disregard the welfare of prostitutes is also shared by some historians (see *Sanger*, 1937).

21 As discussed already, Mandeville saw benefits from the legal brothels of Amsterdam. However, he also saw negatives that his plan was designed to overcome. In Amsterdam, the brothels were seen as filled with loud music, heavy drinking, minimal supervision over the sexual act so as to protect the prostitutes, and having no apparent controls on sexually transmitted diseases. Moreover, they promoted corruption by allowing 'Magistrates . . . to squeeze a Living out of the immodest Gains' (Mandeville, 1714–1729 [1988], ch. I, p. 98).

knowledge and thus transmit the disease to her clients. ‘Now the *Publick Stews* will be so regulated, that a Woman cannot possibly conceal her Misfortune long; nay, it will be highly her Interest to make the first Discovery’ (ibid., p. 66). Although the differential knowledge still exists, the policy eliminates any incentive to use that information in a manner that decreases social welfare by harming the client, or through the external effects associated with the spread of the disease to wives, children, nurses, and so on. Once this disease is controlled the social benefit is that ‘the Nation will naturally recover its pristine Health and Vigour’ (ibid., p. 65). Mandeville clearly understood the welfare-decreasing problems associated with asymmetric information. He saw his plan directly addressing the problem by creating a system such that ‘the Motives to Honesty will be as great here [in the public brothels] as any where’ (ibid., p. 64).²²

In discussing the problem of men deceiving women, recall that Mandeville recognized that it is costly in terms of time, energy, and money to coax married women and virgins into a sexual relationship. Because in his plan, sex with prostitutes would be comparatively inexpensive, any rational male would choose to satisfy his ‘Lust’ with professional, licensed prostitutes. A simple analysis of the costs and benefits as seen by the rational normal man leads directly to this conclusion.

To prove the Affirmative, requires no more but that we look into ourselves, and examine our own Passions; for Love ever was and will be the same in all Men, and in all Ages. The first amorous Emotions that young Men feel, are violent; they are plagued with a Stimulation, which raises a vehement Desire: The Passion is strong, but then it is general; it is lust, not Love: And therefore the natural Impatience of *Lust* will prompt them to take the speediest way for present Gratification, and make them prefer the ready and willing Embraces of a Courtezan, before the doubtful and distant Prospect of enjoying a modest Damsel, whose Coyness will cost so much Pains, as well as Time, to overcome; and, when overcome, may probably occasion a future Uneasiness, and give them more Trouble after Enjoyment than they had before. (ibid., p. 85)

Thus, men are better off because they can satisfy their lust in the most efficient manner possible. Similarly, ‘modest’ women are better off in that they are saved from the extreme negative social costs associated with their loss of virginity. While the female desire is slower to develop, once ignited ‘the *Gate of Chastity*, like the *Temple of Janus*, always stands *open*’ (ibid., p. 77). Given the unrelenting lusts of the male combined with the eventually ignited passions of the women, the ‘only way to preserve Female Chastity, is to prevent the Men from laying Siege to it . . . this Project of the *Publick Stews* is the only Way to prevent Mens laying Siege to it: Therefore this Project is the only Way to preserve Female Chastity’ (ibid., p. 81).²³

22 Again, this is a specific example of Mandeville working through the logic of a general concept of the need for institutions to promote honesty by ensuring that incentives are in place to promote it. In another example, honesty in politicians is created by ‘strict Regulations, concerning the management of the publick Treasure [and in turn] a whole Nation ought never to trust any Honesty, but what is built upon Necessity’ (Mandeville, 1714–1729 [1988], ch.I, p.190).

23 According to Primer (2006, p. 37), the idea that prostitution saved the chastity of most women was centuries old by Mandeville’s time. The same idea is stated in the *Fable of the Bees*, Remark H, ‘if Courtezans and Strumpets were to be prosecuted with as much Rigour as some silly People would have it, what Locks or Bars would be sufficient to preserve the Honour of our Wives and Daughters?’ (Mandeville, 1714–1729 [1988], ch. I, pp. 95–6).

As seen already, this same siege mentality of men could also be directed towards married women resulting in ‘the Increase of Temptation, which is very considerable in the Case of debauching *Married Women*’ (ibid., p. 59). Here the risks to the male suitor are physical violence presumably coming from the husband and ‘the Scandal of having a Bastard’ (ibid.). As discussed, however, the costs to the woman and to the marriage are considered much greater. The reason is not just because it affects two people instead of one and that the ‘mutual Love and Affection between Man and Wife, which is so necessary to both their Happiness’ is lost by the affair. The difference in degree of the cost is associated with the external costs of the affair because strong marriages are seen as the foundation for the growth of the population, the education of the youth, and the preservation of distinctions in the ranks of people (ibid., p. 69).

The existence of public brothels aids marriage in other important ways; it helps improve the match between husband and wife because men are not forced into marriage as a means of obtaining sex, and the elimination of venereal disease helps the married man to maintain his virility, which is considered important for a happy marriage.

When a man has gained some Experience by his Commerce in the *Stews*, he is able to form a pretty good comparative Judgement of what he may expect from the highest Gratification of Love . . . and will not be hurry’d into an unsuitable Match by those Romantick chimerical notions of Love, which possess the Minds of unexperienced Youth, and make them fancy that Love alone can compleat the Happiness of a married State. . . . The *Publick Stews* will [also] prevent the ill Effects of excessive Lewdness, by preserving Mens Constitutions so well, that . . . they will be able to answer all the Ends and Purposes of that State [marriage] as well, and rather better, than if they had lived perfectly chaste. (ibid., p. 70)

The quality of the match between husband and wife is also seen as important because it promotes fidelity. Women are considered more naturally faithful than men: ‘their Passions are not so easily rais’d . . . but when this Passion is once rooted in Women, it is much stronger and more durable than in Men’ (ibid., p. 72). For men, the ‘first great Cooler of a Man’s Affections after Marriage, is the Disparity of the Match’ (ibid., p. 73). After the passions cool in a marriage, the inexperienced man is surprised and is likely to blame his wife. The experienced man understands ‘that after a Storm of Love there always succeeds a Calm: When he enters into Matrimony, he is prepar’d against any Disappointments of that Nature’ (ibid.). This experience would make the man more likely to remain faithful to his wife.

In general the experienced man will make the better husband along any dimension. ‘The experinec’d Man will make the best Husband, and answer all the Ends of Marriage much better than a Man who lives perfectly chaste to his Wedding-Day. Thus we see, by this happy regulation of the *Publick Stews*, that Whoring, instead of being an Enemy to Matrimony, will advance and promote the Interest of it as much as possible’ (ibid., pp. 74–5).²⁴ In addition, the promotion of happy and secure marriages is seen as a legitimate

24 Mandeville loved shocking readers through the use of apparent paradoxes and employed them widely (Andreozzi, 2004; Primer, 2006). In Remark H of *The Fable*, for example, he blamed the Reformation on the ‘Sloth and Stupidity of the *Roman Clergy*.’ In turn, the Reformation benefitted the Catholic Church as it ‘rous’d ’em from the Laziness and Ignorance they then labour’d under’ (Mandeville, 1717–1729 [1988], ch. I, p. 94). Of course, our direct example is how legal *Stews* ‘preserve the Honour of our Wives and Daughters’ (ibid., p. 96). In general, ‘the best of Virtues want the Assistance of the worst of Vices’ (ibid., p. 100).

concern for public policy because of the extensive positive social impacts arising from solid marriages.

Finally, there are the concerns for business and industry on which the riches of the nation depend. The lusts of men are seen as being so strong that they distract attention and impair the judgement of industrialists and merchants. 'If a Man should be overtaken with a sudden Gust of Lechery, it will be no Hindrance to him even in the greatest Hurry of Business, for a ready and willing Mistress will ease him in the twinkling of an Eye, and he may prosecute his Affairs with more Attention than ever, by having his Mind entirely freed and disengag'd from those troublesome Ideas' (ibid., p. 68). The courtesans in the Stew provide a public service by leaving businessmen ready and able to concentrate on the creation of the wealth of the nation rather than being preoccupied by those 'troublesome ideas'.

5. Conclusion

Douglas Irwin points out that whilst Jacob Viner and Friedrich Hayek had divergent opinions regarding Mandeville's ideas in many areas, there was one area of general agreement: as an economic theorist, Viner viewed Mandeville as 'eccentric and archaic', whereas Hayek maintained that his work was 'rather mediocre, or at least unoriginal' (Irwin, 1991, p. 23). Mandeville's *Modest Defence* will surely reinforce Viner's characterization of his work as eccentric, but the assessments of archaic, mediocre, and unoriginal need to be reassessed. Whilst Mandeville was completely unschooled in the arts of political correctness in his time (or ours), his *Modest Defence* represents a major leap forward in economic theory and policy that subsequently remained dormant for nearly 200 years (O'Donnell, 1979; Medema, 2003, 2009; Backhouse and Medema, 2012).

In his *Modest Defence*, Mandeville presents an analysis from base assumptions to policy prescription that is founded on what were previously thought to be modern ideas of market and government failure. The market for sex was seen as being distorted endogenously due to inherent asymmetric information problems on both sides of the market in different circumstances, and autonomously through policies that were enacted hoping to improve social welfare but instead created perverse incentives because of the failure of policy makers to properly understand the base preferences and incentives regarding sex for men and women. In the end, these policies harmed rather than helped all groups in the market. Finally, he developed a proposal that theoretically overcomes the failures in the market by eliminating the incentives to make use of asymmetric information and by creating a tax charged to brothel customers such that the price of sex approximated the social costs of commercial sex, a proposal that is consistent with first-best principles. Public policies that eliminate what he calls 'unforeseen Accidents' can generate market outcomes that improve social 'Welfare and Happiness of Mankind' as compared with either unregulated markets that allow the problem of sexually transmitted diseases to run rampant or markets governed by policies that create distortions resulting in such 'Accidents'.

In 1918, E. R. A Seligman asked in the pages of the *American Economic Review*, 'Who is the twentieth century Mandeville?' Based on Mandeville's analysis of market failures and their remedy associated with the market for sex in *A Modest Defence of Publick Stews*, my vote is cast for A. C. Pigou.

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