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CHAPTER 18

BERKELEY ON THE ECONOMICS OF POVERTY

MARC A. HIGHT AND GEOFFREY S. LEA

> Quicquid vel ad inopiae levamen
> vel ad vitae elegantiam facit
> quicquid ad desidiam populi vincendam
> aut ad bonas artes excitandas pertinet
> id omne pro virili excoluit

BERKELEY eulogizes his friend Thomas Prior in a poem in part with these words: "Whatever makes for an alleviation of poverty or a refinement of life, whatever is suited to conquering the people's slothfulness or the awakening of good skills, he cultivated it all to the best of his ability" (CGB 568). The words give resonance to a common theory of poverty, a theory arguably still widely held today: poverty is the result of defect in the moral character of individuals. According to the poem, Prior shared Berkeley's passion for the well-being of the people of Ireland, perhaps in spite of their slothfulness. We argue, however, that although Berkeley shares the perhaps unfair and lamentable view that the poor are typically lazy and idle, he, unlike his contemporaries, marries institutional concerns about poverty to his theory of moral defect. He has some insight that it might be rational for the poor to behave as they do and choose to work less. In order to break certain cycles of poverty, Berkeley advocates a policy not simply of "fixing" impoverished people, but of altering the social and political institutions that govern their lives.

Berkeley is better known for his proposals concerning monetary and banking reform, but even so he is not widely considered an important figure in the history of economics. A now common understanding of the field of economics introduced by Lionel Robbins (1932; also Backhouse and Medema 2009) is that it studies human behavior as a relationship between ends and scarce means that have alternative uses. Given that characterization, there is admittedly not a lot of *obvious* economics in

Berkeley's work. Despite Berkeley's being recognized by the historian of economic thought Joseph Schumpeter (1954, 296) as the first thinker to depict money using the ticket analogy,[1] most economists have not given Berkeley much credit for advancing the field (there are exceptions, of course; see Vickers 1959, chap. 8). Schumpeter himself remarks that Berkeley's contributions to economic analysis are "not on a level with his contribution to philosophy" (Schumpeter 1954, 294) and more pointedly Karl Pribram dismisses Berkeley with less than a sentence, noting that "Berkeley's contributions to economics were not particularly remarkable" (Pribram 1983, 122). There is no surprise here: what we call "economics" today was not recognized as a distinct field of inquiry until after Berkeley's death. Berkeley himself did not conceive of his own thinking in such terms.

With respect to political economy, however, we make a case that Berkeley's contributions were considerable. If one conceives of political economy as the application of positive economics to moral, social, and civil contexts (such as applications of economics to political policies, distributional conflicts, and the functioning of political institutions), Berkeley emerges as a more important figure in the history of political economic thought. Contrary to the prevailing economic wisdom of his era, Berkeley is neither a metallist nor a mercantilist. Metallism is the view that money only has value when "backed by" something of independent value, like silver or gold. Berkeley claims that wealth is the command of productive industry, a claim that runs counter to the mercantilist notion of wealth as either material goods themselves or the money to purchase said goods. Since to mercantilists wealth is not the command of industry, they are obsessed with balance of trade (encouraging exports over imports through state action such as tariffs, quotas, and so forth). Recognizing that wealth is not specie allows Berkeley importantly to argue that money is simply a ticket or counter of underlying value. Thus, Berkeley realizes that there is no real need to hoard silver, gold, or other metals as a measure of worth. A national bank, issuing paper currency, could facilitate trade and promote wealth as well as the importation of gold. Much excellent work has already been done on Berkeley's critique of certain aspects of mercantilism (especially metallism and his theory of money as tickets or counters), his arguments for a national bank, his analysis of economic bubbles, and so forth (for a start, see Kelly 2014; Kelly 2017; Hutchison 1953; Hight 2015).

In this chapter, we restrict ourselves to a less well-attended part of Berkeley's thinking in political economy, namely his engagement with, and analysis of, the economics of poverty. His concerns are primarily limited to the well-being of the people of Ireland, but there are lessons to be gleaned from Berkeley that may be applied more broadly. Or so we argue. It is not that others have not addressed his comments, but we here concentrate on what his theory of the origin of poverty is and his prescriptions for its alleviation. Berkeley's analysis is deeper than it initially appears, signaling a sensitivity to the importance of institutions in the wealth and well-being of the people of a nation.

According to Berkeley, direct wealth transfers, educational programs, and threats are not sufficient to alleviate poverty. Instead, one must find a way (a) to alter the basic values of the working poor to properly incentivize the kinds of behavior that might produce wealth and the alleviation of poverty and (b) to provide an economic and cultural context that allows those value changes to have meaningful impacts. To this we add the possibility (c): there is nothing wrong with the values of the poor; one simply needs to correct for institutional failures that do not provide proper incentives. In this chapter, we start by characterizing the situation of the Irish in the eighteenth century and present the problem of the idle poor, including Berkeley's theory of moral defect. We then provide an economic model that explains why people might choose leisure and poverty over a bit less want but more work. We argue that this model explains Berkeley's Ireland. Perhaps Berkeley errs in his thinking about how a society might bring about the alleviation of poverty, but his diagnosis of the problem is innovative and sensitive to economic realities often ignored even today. We conclude by connecting Berkeley's insights to contemporary capability theory.

The Problem of Poverty in Eighteenth-Century Ireland

Eighteenth-century Ireland faced a number of economic and political challenges. Ireland was essentially a colony of England at a time when the dominant strand of economic thinking was mercantilism. In this period, mercantilist thinkers emphasized the accumulation of wealth (primarily in the form of gold and silver) through maximizing a favorable balance of trade (Mun 1664; Heckscher 1935; Hinton 1955). Furthermore, economic regulation was increasingly seen as a critical instrument in the maintenance and expansion of state power. Ireland was thus viewed as a dependency whose role was primarily to support the wealth and well-being of England.

In the first half of the eighteenth century, Ireland faced three critical economic crises: chronic underemployment, a general agricultural depression, and a poorly functioning currency system (Kelly 2017). Berkeley, among others, wondered why the situation in Ireland was so dismal. Poverty was rampant. Accurate figures are hard to obtain, but a reasonable projection is that more than sixty percent of the population of Ireland lived on less than £5 per year during the eighteenth century (McBride 2009, 131). As a point of comparison, the price of potatoes in Cork and Belfast in the 1770s was around 30 pence per hundredweight (Kennedy and Dowling 1997, 82). With estimates on daily consumption ranging from seven to fourteen pounds of potatoes (Connell 1975, esp. chap. V) and 240 pence to the pound sterling, the large majority of the income of the poor during a year went just to potatoes. If an individual consumed an average of ten pounds per day, at that price the person would spend just over £4.5 per year merely on potatoes. Yet, given the abundance of natural resources and other advantages in Ireland, the poverty seemed unnecessary. Many of the hardships were imposed by England and its proxy, the Irish Parliament. By mid-century, non-Irish landowners owned almost all of the land, and the Catholic population lived in abject poverty. The "Navigation Act" of 1660 prohibited exports from Ireland to other colonies. By 1666, Irish cattle could not be sent to England, a restriction that caused considerable economic distress. The Irish then turned increasingly to wool production, which prospered until the Wool Act of 1699 forbade the export of wool from Ireland to anywhere except England, where significant trade barriers were already in place. Wool production was a major source of income for Ireland (and continued to be in some sense as smuggling flourished). Irish historian Patrick Weston Joyce (2011 [1910], 710) asserts that the Wool Act even reduced some 40,000 Irish Protestants to poverty virtually overnight. Some, such as Thomas Prior and Arthur Dobbs, sought to rectify the problem by promoting the development of industries (such as linen and hemp) that did not compete with England. Nonetheless, there was a general sense that English control over Ireland and its economy would prevent meaningful success (Beckett 1986). The massive economic dislocation, however, left a large portion of the Irish population both impoverished and without any obvious means of rectifying the situation. A series of bad harvests and famines starting in the 1720s (continuing intermittently through the 1750s) made the plight of the poor worse.

The difficulties the poor of Ireland confronted were exacerbated by the system of land rental that came to dominate the island at the end of the seventeenth century. Most of the land had been transferred to absent Protestant landlords, who let the land to tenants. Frequently, however, those tenants would themselves sublet the land in smaller parcels. Sometimes this arrangement involved multiple levels of tenants and landlords (McBride 2009, 123–125). As the practice was widespread, the laborers had little recourse to better options, causing the rents for those who actually tended the land to be high relative to their income. Often laborers and farmers were forced to keep accounts with their landlords, such that they were paid in kind. By "accounts" and payments "in kind" we mean exchanges of labor for things like rent, food, and the presence of animals (cows, horses, chickens, etc.) on the land, rather than payment in money. As a result, the poor had typically relatively little cash (specie). Arthur Young, traveling in Ireland in the 1770s, notes how the Irish population was then relatively well fed, but oppressed nonetheless:

> [The Irish poor] are ill clothed, and make a wretched appearance, and what is worse, are much oppressed by many who make them pay too dear for keeping a cow, horse, etc. They have a practice also of keeping accounts with the labourers, contriving by that means to let the poor wretches have very little cash for their year's work. This is a great oppression, farmers and gentlemen keeping accounts with the poor is a cruel abuse: so many days' work for a cabin; so many for a potato garden; so many for keeping a horse, and so many for a cow, are clear accounts which a poor man can understand well, but farther it ought never to go; and when he has worked out what he has of this sort, the rest of his work ought punctually to be paid him every Saturday night. (Young 1897, 25–26)

One might compare this arrangement with "company towns," where laborers received goods and services from company stores instead of cash payments. Berkeley was cognizant of the situation:

> [S]ome of our squires and landlords are vultures with iron bowels, and . . . their hardness and severity is a great discouragement to the tenant, who will naturally prefer want and ease before want and toil. (WW 243)

Berkeley's admission is no small matter for an individual trying to exhort the masses to additional labor. Young also describes the situations of the rents in County Kerry a few decades later:

> The state of the poor in the whole county of Kerry represented as exceedingly miserable, and owing to the conduct of men of property, who are apt to lay the blame on what they call land pirates, or men who offer the highest rent, and who, in order to pay this rent, must and do re-let all the cabin lands at an extravagant rise, which is assigning over all the cabins to be devoured by one farmer. The cottars[2] on a farm cannot go from one to another, in order to find a good master, as in England; for all the country is in the same system, and no redress to be found. Such being the case, the farmers are enabled to charge the price of labour as low as they please, and rate the land as high as they like. This is an evil which oppresses them cruelly, and certainly has its origin in its landlords when they set their farms, setting all the cabins with them, instead of keeping them tenants to themselves. (Young 1897, 112–113)

Long before Young popularized the term "middlemen" to describe this situation late in the century, a variety of authors criticized the system of land rental in Ireland. James Arbuckle, for instance, published one such commentary in his *Tribune* in 1729. A law was eventually passed in 1826 making it illegal to subdivide land for rents without the consent of the landlord, but the law was easily evaded and not well enforced. In any event, it came far too late to help the Irish of the eighteenth century (Harkness 1932, 261–282).

In short, the poor of Ireland faced a difficult situation. Not only were they poor, but there were institutional barriers, both customary and legal, that kept them impoverished. Discrimination (mostly against Catholics), an oppressive tenancy arrangement, and a defective currency system were a few of the obstacles. Those who could leave Ireland often did, either to pursue a better life elsewhere or out of necessity. In 1700, Ireland was a country of net immigration; by 1750 and for hundreds of years thereafter, Ireland was a nation of net emigration (Fitzgerald and Lambkin 2008, 113). Catholic emigration to North America was prohibited by law until after the American colonies achieved independence; thus, many of those who left were relatively better-off Protestants (especially Presbyterians of Scottish ancestry), leaving those who remained in Ireland increasingly both Catholic and poor.

The Moral Defect Theory

Berkeley's diagnosis of—and solution to—the poverty plaguing a politically dependent Ireland is at times provocative-sounding. Much of the blame for the poverty in Ireland was laid at the feet of the poor themselves, who allegedly suffered because of their own moral defects, especially with respect to their work ethic. Most of Berkeley's views on political economy can be found in *An Essay Towards Preventing the Ruin of Great Britain* (1721), *The Querist* (the first edition appeared in parts between 1735 and 1737; it was reprinted with changes in 1750), and *A Word to the Wise* (1749). He focuses on the concept of wealth creation, both in describing the causes of poverty and when proposing solutions. The road to relieving the misery of the destitute lies in the creation of wealth through state-supported individual industry (i.e., a stronger work ethic). The indigent of Ireland could, if they only had the opportunity and the right attitude, lift themselves out of poverty. To provide that opportunity, Berkeley argues for institutional changes in Ireland.

Letting go of some of the prevailing mercantilist wisdom, Berkeley argues for an interesting conception of wealth. Wealth is not found in stocks of gold or silver, but is measured in terms of satisfying human wants, however achieved:

> Whether plenty of all the necessaries and comforts of life be not real wealth? (Q 542:149)

One need not make the people of Ireland rich in coin in order to make them wealthy. A critical part of the analysis is Berkeley's consistent assumption that all of the people of Ireland matter in this calculation of national wealth. The source of wealth is the ability of individuals, through their labor, to extract from the environment what is required to satisfy their wants:

> Whether the four elements, and man's labour therein, be not the true source of wealth? (Q 4:105)

These wants predictably include basic necessities such as food, clothing, and shelter, but reasonably extend to include not merely these staples, but *good* food, *good* clothing, and *quality* housing. The question then is *how* precisely to create this wealth. Instead of focusing on exports and particular kinds of trade goods designed simply to promote a favorable balance of trade, as the mercantilists advise, Berkeley endorses an Irish economy turned inward. He would be happy with autarky (Q 134:116) but he is not opposed to trade per se. He believes that any trade should focus on providing for the basic wants (i.e., not luxuries) of its own people first.

If wealth is the satisfaction of human wants, and the source of wealth is the application of labor to the abundant resources of the environment, then the key to Ireland's problems—indeed the key to wealth *anywhere*—is to promote productive labor. Berkeley calls this "industry" and it is the central part of his political economy. Berkeley does not separate strictly economic questions of satisfying wants in a context of scarce means from moral and social questions about individuals and institutions. The problem in Ireland, according to Berkeley, is not the destruction of the woolen industry by Britain, or the regulation of Irish trade in favor of English interests. The real problem arises from two sources: a loss of work ethic among the people generally (especially the poor), and the abandonment by the upper classes of their moral duties to govern through wise actions and policies aimed at the wealth of the nation. Without this work ethic for the poor and this governing ethic for the Irish aristocracy, poverty for most is the inevitable outcome:

> Whether the bulk of our Irish natives are not kept from thriving, by that cynical content in dirt and beggary which they possess to a degree beyond any other people in Christendom? (Q 19:106)
>
> Whether it is possible a State should not thrive, whereof the lower part were industrious, and the upper wise? (Q 192:121)
>
> Whether the gentleman of estate hath a right to be idle; and whether he ought not to be the great promoter and director of industry among his tenants and neighbours? (Q 201:121)

It thus falls to the populace as a whole to address its own moral failings. The poor are content in beggary and choose not to work. The rich and the landed reveal moral defect by abdicating their responsibilities to the people and the nation as a whole, i.e., by promoting productive labor. Mostly Berkeley is concerned to curb the excesses of the landed gentry and keep the domestically generated wealth in Ireland, but he includes gentle reproofs along a surprisingly wide array of issues.

The wealthy need to substitute *appropriate* consumption for their current habits. Wealth generation is all well and good, but it is not genuine unless it is built upon productive industry. And productive industry ultimately depends on labor. If one acquires money from gambling or stockjobbing,[3] then no wealth is actually created. The result, claims Berkeley, is essentially a zero-sum game. What is required is an attitude of laboring for *wealth*, not for luxury:

> Men are apt to measure national prosperity by riches. It would be righter to measure it by the use that is made of them. Where they promote an honest commerce among men, and are motives to industry and virtue, they are, without doubt, of great advantage; but where they are made (as too often happens) an instrument to luxury, they enervate and dispirit the bravest people. (RGB 74–75)

Thus, Berkeley favors sumptuary laws[4] and measures to incite even the well-off to engage in productive labor:

> Whether nations, as wise and opulent as ours, have not made sumptuary laws; and what hinders us from doing the same? (Q 103:113; also RGB 76–77)

He means such things as investing money in domestic ventures, thus employing the people of Ireland and promoting industry at home.

Yet there is little doubt that Berkeley lays most of the blame on the larger—that is to say poorer—part of the population. Berkeley holds a view that was widespread in Ireland and England, namely, that the poor of Ireland were unconscionably idle, lazy, and possessed of a deep defect of character when it came to providing for themselves and their families. He even asserts that the Irish prefer, or perhaps enjoy, being unclean, in the literal sense of not bathing and not engaging in proper hygiene:

> Indolence in dirt is a terrible symptom, which shews itself in our lower Irish more, perhaps, than in any people on this side the Cape of Good Hope. I will venture to add that, look throughout the kingdom, and you shall not find a clean house inhabited by clean people, and yet wanting necessaries; the same spirit of industry that keeps folk clean being sufficient to keep them also in food and raiment.
>
> But alas! our poor Irish are wedded to dirt upon principle. It is with some of them a maxim that the way to make children thrive is to keep them dirty. (WW 242)
>
> Whether our old native Irish are not the most indolent and supine people in Christendom? (Q 357:134)

The Irish according to Berkeley *choose* not to work when they might, and *choose* to be indolent employees when they do work. Whether Berkeley is factually correct on this issue is an interesting question, but for our purposes here it is sufficient to note that he shares the common view that many of the poor are simply idle. Furthermore, this defect of character is *why* those persons are poor. Berkeley gives us a clear statement of his theory of poverty in his address to the Catholic prelates in Ireland:

> It is past all doubt that those who are educated in a supine neglect of all things, either profitable or decent, must needs contract a sleepiness and indolence, which doth necessarily lead to poverty, and every other distress that attends it. "Love not sleep (cries Solomon), lest thou come to poverty; open thine eyes and thou shalt be satisfied with bread" (Prov., xx.13). It is therefore greatly to be wished, that you would persuade parents to inure their children betimes to a habit of industry, as the surest way to shun the miseries that must otherwise befall them. (WW 243)

To be fair to Berkeley, the basic point he is making has not exactly gone away. Economists, political economists, politicians, and ordinary people even today sometimes struggle with difficulties in explaining the behavior of the poor. With Berkeley they ask: Why should there *be* poor—especially *idle* poor—given the amount of wealth present in the world? Would not the lives of many people be significantly better if they would just work a bit harder? The poor must be poor because they lack a strong work ethic (for just two contemporary examples, see Szalavitz 2017 and Desmond 2018).

There is thus a general problem in Ireland that takes two forms. The upper classes display a casual disregard for genuine wealth (promoting productive labor) in favor of the unthinking and self-interested pursuit of vice and luxury.[5] The poor display a moral defect that inclines them not to work and to be content in "dirt and beggary." We now focus on the latter.

The "Perversity" of Labor

It is important to note that Berkeley's claim that the Irish poor "possess a love of dirt and beggary beyond all in Christendom" is most probably false. We do not mean that the Irish were not idle, but rather that it is unlikely that the Irish were any *worse* than the poor elsewhere. Furthermore, it is hard to believe that Berkeley himself was unaware of the fact. Daniel Defoe in 1705 writes scathingly about the poor of England, noting there is a "taint of slothfulness upon our poor," and

> I make no difficulty to promise on a short summons, to produce above a thousand families in England, within my particular knowledge, who go in rags, and their children wanting bread, whose fathers can earn their 15 to 25 s[hillings] per week, but will not work, who may have work enough, but are too idle to seek after it. (Defoe 1705; for a discussion of additional period complaints, see Hutchison 1953, 56–57)

General commentaries about the poor of Great Britain made much the same point, alleging that laziness is the cause of poverty above all else. It seems likely that Berkeley would have been aware of such accounts, as pervasive as they appear to be in his own time. Perhaps Berkeley was engaged in rhetorical flourish. The poor of Ireland were likely not substantively different in terms of their behavior from the rest of the poor (at least in the British Isles) when one controls for their peculiar political position as a dependent nation. If so, then a more general question emerges. If the poor behave similarly in and out of Ireland, if they systematically tend (in the aggregate) to prefer want and leisure to a bit less want but more work, what explains this phenomenon and what precisely did Berkeley see in the situation of the poor that his contemporaries perhaps failed to appreciate?

The theory of moral defect is not all Berkeley has to say about poverty and the people of Ireland. What needs to be explained first is why, if opportunities arise for higher wages, added income, and more consumption, the Irish poor choose to work *less* and forgo all those good things. The phenomenon is well known in economic theory. Such cases are described as backward-bending or "perverse" labor supply curves (Hernández-Licona 1997; Nakamura and Murayama 2010; Dessing 2002; Friedman 1990).

In market economies, households get income for consumption from selling labor and then spend that income on a variety of goods. An increase in per-unit wage will induce an increase in the number of units of labor supplied to the market, bringing in higher incomes and more consumption of various goods. In other words, more people will work and/or work more hours as their wages rise. However, households also enjoy leisure or nonwork free time. Typically, consumers are happy to give up additional leisure time (i.e., they work more) in return for higher and higher per-unit wages, creating the standard upward-sloping labor supply curve *S* in figure 18.1. For some workers, however, a higher per-unit wage will *not* increase the number of labor hours supplied. An increase in the per-unit wage rate affords the consumption of non-leisure goods in such a combination that no additional work is necessary and causes them to shift toward more leisure on the whole. When paid higher per-unit wage rates, these workers will actually work less, causing the backward-bending labor supply curve *S*' in figure 18.1.

The type of behavior just explored is most often encountered with comparatively high-income households in absolutely wealthy societies. Consider, for instance, a high-income earner in an affluent society who also enjoys a simple life with little extravagance in the way of material objects. Owing to the availability and relative cheapness of most household consumer goods, as well as her modest desires for additional consumption, our worker might choose not to consume more. When she is offered an increase in her wages, she accepts. The pay raise allows her, however, to consume the same amount of material goods while working less. She values the additional leisure more than greater consumption, producing a backward-bending labor supply curve.

A similar phenomenon could also arise under different circumstances. Consider an impoverished household with only one income earner. Regardless of the affluence of her society, her wages are quite low, and, despite many hours worked, she only just manages to earn a subsistence level of income for her household. Should her per-unit wages fall, she would likely choose to work *more* hours in order to maintain enough income for her family. The result is also a backward-bending labor supply curve; in this case, however, a lower wage leads to more labor hours offered on the market.

Neither of these cases of well-understood, backward-bending labor supply curves seems to apply to the Irish poor. Many of those individuals—at least in non-famine times—were poor but *above* the subsistence level. Nonetheless, our thesis is that Berkeley is implicitly making a case for *precisely* this situation. That is, eighteenth-century Ireland constitutes an example of a perverse labor supply curve for the poor generally in Ireland. Berkeley's explanation points to institutional obstacles that make it rational for the poor to choose not to work.

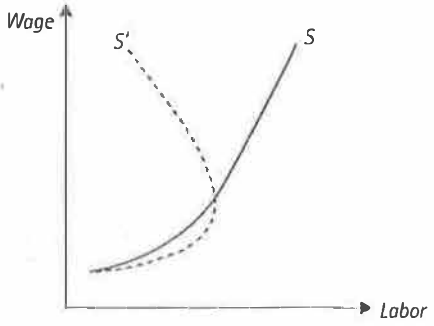

FIGURE 18.1 Two labor supply curves. *S* is a typical labor supply curve; *S'* is a "perverse" one.

Modeling the Rational Idle Poor

We submit that Berkeley on some level understands that labor markets can behave "perversely" in certain constrained contexts. He is aware of the outcome (i.e., continued poverty) and understands that at least part of the solution requires institutional change to ameliorate it. Exactly how that works requires a relevant detour through some political economics and technical economic modeling. The idea is to demonstrate the mechanisms of rational choice that indicate why individuals work less (or consume more leisure) as wages increase. With an understanding of the phenomenon in hand, we can turn to its institutional causes and the proposals Berkeley makes in the hopes of reducing poverty.

The preceding discussion of "perverse" labor supply curves presented the kernel of the idea but did not elaborate on the precise causes or mechanisms. Using budget constraints and indifference (utility) curves, modern economic theory models household behavior as it responds to changes in its trading opportunities. Our purpose in introducing this model of rational choice is to highlight the trade-offs households face and how differing institutional circumstances would cause those individuals to change their behavior. Within this framework, the backward-bending labor supply curve is the outcome of changes in a household's opportunity set and the interaction of income and substitution effects in light of that changed opportunity.

When a household finds its income increased, it will likely change the bundle of goods it consumes. If the household's consumption of a certain good changes proportionately with income, that good is said to be "normal;" if the household's consumption changes inversely with income, the good is said to be "inferior." Inferiority is not the same thing as being low-quality (although, for many consumers, they are correlated). Instead, inferiority is a technical definition based on observed behavior under different circumstances and, in a theoretical model, is an empirical assumption. A third possibility is a "superior" or a "luxury" good, whose consumption change goes in the same direction as the income change but is disproportionately larger than the change in income. The "income effect" is the result of a change in income on a household's consumptive bundle. When a change in income results from a change in the value of a household's endowment, it is called a "wealth effect."[6]

Income might change, either because the household's nominal income changes or because its effective or real income (due to lower prices of one or more goods, for instance) has changed. The problem is that a change in real income owing to a change in prices must account for any change in behavior due solely to that change in relative price. This phenomenon, known as the substitution effect, exists to isolate the change in behavior due to relative prices from the income (or wealth) effect (Slutsky 1915; Hicks 1946, 305–314). Consider figure 18.2.

In figure 18.2, a household faces a choice over how much leisure and consumption (measured in dollars spent on a composite of all other goods) it will consume. Supposing it has sixty hours total to devote to leisure or to labor, the wage rate determines the marginal opportunity cost of an hour of leisure in terms of the dollars that could be spent on other goods for consumption. A household might consume zero of all other goods and enjoy sixty hours of leisure (the horizontal intercept), or work a full sixty hours and consume a large amount of other goods (the vertical intercept). We begin at bundle A, which lies where budget line I_0 is tangent to an indifference curve U_0, the set of all bundles of leisure and other goods over which the household is indifferent. When the wage rises, the household still has sixty hours it could devote to leisure or labor, but the opportunity cost of leisure has increased. The substitution effect represents the pure effect of this change in opportunity cost, controlling for the wealth effect due to the change in real income. In figure 18.2, the substitution effect is the distance, in terms of leisure and all other goods, between bundle A on budget line I_0 and bundle B on budget line I_2, as each lies tangent to the indifference curve U_0. These budget lines have different slopes, representing the change in the opportunity cost of leisure as the wage rate rises, but have had some amount of income "compensated," i.e., taken away, to keep the household on the same indifference curve.

Since the price of an hour of labor has gone up, the household enjoys a positive wealth effect because its endowment of time is more valuable than previously. This effect is measured in the change from bundle B on budget line I_2 to some final bundle on budget line I_1. For clarity, we have modeled only one such bundle, C, to which we will turn shortly. Instead, we have shown three ranges of possible final bundles, depending on whether one good is inferior or both are normal. If leisure were inferior, the household would consume less leisure as its wealth increases but would consume even more of all other goods. If both goods are normal, then the household will consume more of both leisure and all other goods, but it is important to note that if leisure is normal, the wealth effect will cut against the direction of the substitution effect, making the total effect smaller in the direction of more work. Lastly, if leisure were superior (that is, the amount of leisure the household chooses increases disproportionately to the increase in income), then general

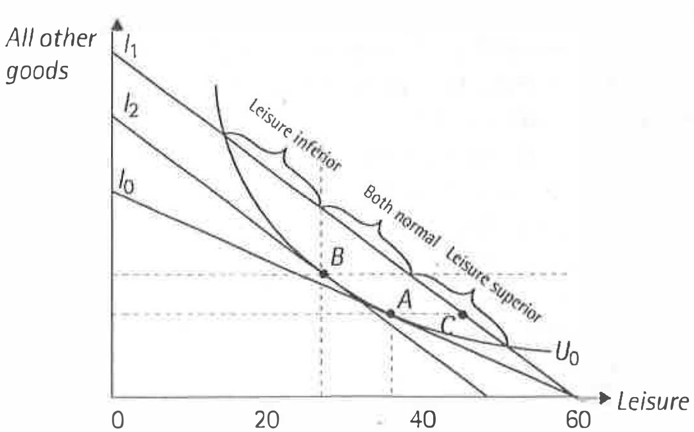

FIGURE 18.2

consumption on all other goods would be inferior. We can see how these various options create labor supply curves by combining figure 18.1 with figure 18.2.

In figure 18.3, we see two labor supply curves. The curve labeled *S* represents the pure substitution effect and connects the original bundle *A* and the substitution effect bundle *B* in figure 18.2. The wage has risen from "Low" to "High" and the household has substituted away from leisure (which has become relatively more expensive) toward goods that can be purchased from selling more of its time as labor. The labor supply curve labeled *S* involves no wealth effect at all; it models only the substitution effect. If, however, we were to include the wealth effect, more possibilities arise. We can see, nevertheless, that the substitution effect alone tends to create upward-sloping and not backward-bending labor supply curves, and this situation will obtain anytime the substitution effect is larger than the wealth effect. Backward-bending labor supply curves require additional assumptions about the size and direction of wealth effects.

For instance, if leisure is inferior, the final bundle lies to the left of bundle *B* in figure 18.2 and to the right of *B* in figure 18.3, creating an upward-sloping and more elastic labor supply curve. If leisure is normal, on the other hand, then the final bundle lies somewhere to the right of *B* in figure 18.2 and to the left of *B* in figure 18.3. Indeed, the "perverse" backward-bending labor supply curves we saw in figure 18.1 require only that leisure be sufficiently normal so that the wealth effect in leisure (which increases leisure) is larger than the substitution effect (which decreases leisure). In that case, the final bundle lies to the right of *A* in figure 18.2 and to the left of *A* in figure 18.3. An increase in wages can thus lead to a reduction in labor sold on the market, i.e., a backward-bending labor supply curve.

Finally, we considered in figures 18.2 and 18.3 a third specific bundle, *C*, which lies in the realm where leisure is superior and consumption on all other goods is inferior. This bundle is interesting because, by construction, it contains more leisure than the original bundle *A*, but, owing to the wage increase, it affords the household the same

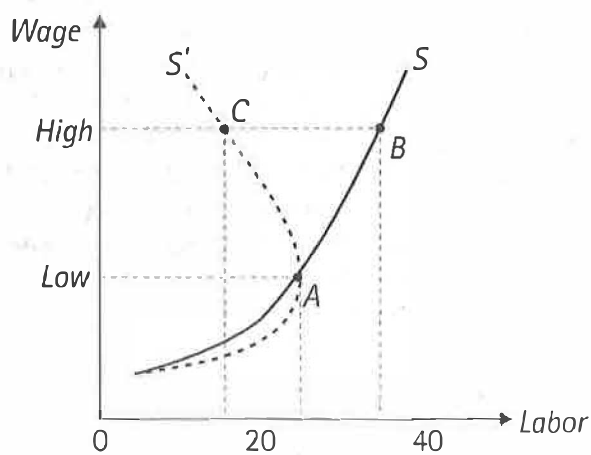

FIGURE 18.3

amount of all other goods that it enjoyed at the original bundle. With our initial value of labor implicit in bundle A, final bundle C produces the backward-bending labor supply curve S' in figure 18.3. Just as in the previous example, where a single earner in an impoverished household worked *more* hours when her wages *fell* in order to maintain a subsistence income, we have modeled in C a household that worked *less* when its wages *rose* yet was still able to afford the same amount of all other goods. The symmetry of these cases is not coincidental; it is a result of rational choices made by households in highly constrained and less-than-ideal circumstances.

Let us now apply this analysis to impoverished Ireland to see whether the situation there might lead us to conclude that we have a case of the backward-bending supply curves just described. We suggest that, in noting that ending poverty requires the stimulation of wants, Berkeley is implicitly noting a situation where the wealth effect is larger than the substitution effect and thus induces the poor to work less. What would explain the existence of those types of situations? In the case of bundle C in figure 18.2 and the point C on the backward-bending supply curve in figure 18.3, we see one *possible* explanation: consumption on other goods is inferior. That is, as the relative price of consumption falls, people nonetheless consume *less* in spite of the substitution effect otherwise leading them to consume more. The inferiority of consumption on all other goods is often a sufficient condition to produce a backward-bending supply curve. To be sure, however, this is a strange case. It would be even stranger to discover that the claim *can* be reasonable, albeit in unusual contexts—like those of Irish peasants in this milieu.

What type of circumstances would have to obtain to make consumption of other goods inferior? Consumption might be an inferior good when there is little else on which one can spend income even when earned. We believe two features of Ireland at the time could have created this situation: the ill-functioning currency system and the tenant system. First, Ireland was suffering from a shortage of specie, which meant that workers were not compensated regularly and in coin, which they could spend as they pleased. Instead—and as an additional, peculiar feature of Ireland at the time—employers made payments to workers via the tenant system and frequently employed systems of accounts where labor was exchanged directly for rents and similar goods and services (payment in kind). The ill-functioning currency system helped to produce a third factor. Without specie or coinage to facilitate trade, the goods and services that would have been prized were simply beyond the expectation of the poor to afford even with additional labor. Without the means to consume, due to a general lack of currency and to a prevalent in-kind payment system, and without a set of goods within grasp, it seems plausible that Irish workers would view consumption of non-leisure goods as an inferior good. In other words, because the Irish had reason to believe that there was not much of value to them that they reasonably *could* have consumed with higher wages, they chose more leisure and less consumption over less leisure and more consumption. Higher wages would simply have enabled the Irish working poor to get by at the status quo level of consumption with fewer hours of labor, and *that* was a clear benefit to them.

The inferiority of general consumption is an unusual empirical upshot. Fortunately, it is not the only possible explanation for the phenomenon of backward-bending labor supply curves. While inferiority of consumption can be sufficient, it is not necessary. All that is necessary is for the wealth effect in favor of increased leisure to be larger than the substitution effect that incentivizes an increase in consumption (labor). We have already considered what might affect the size and direction of the wealth effect, so we turn now to what impacts the size of the substitution effect.

Since substitution effects hold real income constant, the only thing that matters for the size of the substitution effect is the shape of the indifference curves (U_0 in figure 18.2). If the indifference curves are relatively flat (in the limit, a straight line), the two goods in question are highly substitutable and the substitution effect will be large. If the indifference curves are pronouncedly curved (in the limit, a right angle), the two goods are complementary and the substitution effect will be small (or nonexistent). Complementary goods are those for which consumption of one good is proportional to the demand for the other. A classic example is peanut butter and jelly. Demand for jelly will rise if, for some independent reason, consumption of peanut butter rises. People consume them together and do not generally substitute one for the other.

What seems plausible for the case of our Irish peasant workers? Given all of the difficulties with opportunities to expand consumption previously discussed, leisure time and consumption were strongly complementary for the Irish poor. There was still *some* value in trading off some leisure for more consumption of non-leisure goods as the relative price of leisure rose (and vice versa), but this amount was likely not large. If the substitution effect is small because of a strong complementarity between leisure and other non-leisure goods, the total effect of a change in wages will rely predominantly on the wealth effect. However, if the two goods are highly complementary, then it is also more likely that both are normal goods; increasing income would not cause a household to consume more of one and not the other if they are truly complementary. So long as leisure is sufficiently normal—compared to consumption of non-leisure goods—the wealth effect increasing leisure is likely to be larger than the substitution effect decreasing leisure, giving us the "perverse" labor supply relationship.

The question is thus *why* consumption and leisure were complementary for the poor. We suggest that the answer (again) lies in the constrained living conditions in Ireland at the time. Peanut butter and jelly are complements because of the tastes and preferences of consumers. Those tastes and preferences reflect the beliefs consumers have about those goods and can be cultivated. The Irish poor viewed leisure and consumption as complements because they *learned* to do so; they had come to believe there was little sense in trading off leisure for the prospect of more consumption. If someone works harder (or longer) in the hopes of consuming more but finds that there is little that she *can* consume despite the work (e.g., because of institutional barriers), she will cease thinking of leisure as something worth trading off for the prospect of more consumption. A higher wage does not induce her to shift much of her free time toward consumption; at the same time, the increase in her wealth from the higher wage allows her to have more of both leisure and consumption. In this situation, higher-paying work allows her more leisure on net, especially because other opportunities for consumption are not available. The Irish lived in a situation where only additional leisure could reasonably be obtained and they thus treated it as strongly complementary to consumption. And in that situation, it is rational to prefer more leisure and less consumption over less leisure and more consumption, *even though wages have risen*. That is, we see the same pattern of behavior we do under the supposition that consumption is inferior: a backward-bending labor supply curve.

We are arguing that "idleness" might be an entirely rational response to the plight of poverty in some circumstances. Note that here we are making the argument that the preceding analysis is only *plausible* and that it is reasonable to attribute to Berkeley some inkling of it. To defend this supposition in detail would require additional economic study and analysis. Berkeley believes that one way to induce people to greater industry is to cultivate within them wants and desires that are more valuable to them than additional leisure. Berkeley's solution would have to surmount two obstacles. First, he would need a policy that could reasonably alter the values, preferences, and wants of the poor. Second, he would need to ensure that there is an economic system in place that could reasonably deliver on those changing wants. More strongly, the system would not only *in fact* have to be able to provide reasonable access to these new goods, but the poor in Ireland would also need to *believe* that those goods are also reasonably obtainable. Otherwise, they would still be likely to prefer indolence and leisure to work and prosperity. Berkeley is direct about the hypothesis:

> Whether the creating of wants be not the likeliest way to produce industry in a people? And whether, if our peasants were accustomed to eat beef and wear shoes, they would not be more industrious? (Q 20:106)

The Irish poor had an odd set of perverse incentives. More and harder labor meant an increase in income, but several factors undermined the incentive to work—all of which Berkeley understands. As we have argued, a lack of small coinage in the realm meant that the poor were often not paid in coin and instead subjected to the abuses of the "accounting" systems discussed above. Without ready cash to lower transaction costs, fewer goods were in fact physically accessible. It is also more difficult to save under an accounting system, as the credits are not readily transferrable to enable other kinds of purchases. Generations of what can only be reasonably described as oppressive rule by England created among the Irish a sense that even were they to work harder, there was little likelihood that they would be able to enjoy the fruits of their labor. Assume for the sake of example that a poor Irish family of tenants is considering whether to work longer hours, perhaps by supplementing farm work with other labor. If the work brings in a small amount of additional income, there must be something *more valuable* to them than leisure that they wish to acquire in order for it to be worth the added labor. If such goods are not available, or not believed to be available, then there is little incentive to work. The members of the family might (perhaps reasonably) believe that if the work is done on the land, since they exchange labor directly for rent and similar services, they would not get much value back from such an exchange. Given these constraints, it is little surprise that the Irish poor developed a culture that prized leisure (or, if you will, idleness and beggary) over work.

To summarize, we contend that Berkeley viewed the poverty in Ireland as owing to a combination of moral defect (to include both the poor and, for different reasons, the upper classes as well) *and* the fact that the poor in Ireland were in a sort of poverty trap. It was thus *not* a moral defect trap but instead a combination of institutional and personal factors. For Berkeley, one needed to fix not simply the people, but the social and political institutions that governed their lives as well.

Exciting the Industry of Humanity

To improve the lot of the nation despite this unique situation, Berkeley employs all of his considerable talents, from pure rhetoric to subtle argument. With respect to the first obstacle—shifting the values and preferences of the people of Ireland—Berkeley's solution is to employ both the carrot and the stick. As an incentive, the state in Ireland needs to create new wants by *providing* better goods to the poor (albeit making them work for those goods through forced labor):

> Whether it would be a hardship on people destitute of all things, if the public furnished them with necessaries which they should be obliged to earn by their labour? (Q 380:136)

The idea is to cajole or even coerce the poor of Ireland into enjoying (and thus pursuing) a higher standard of living. Recall his plea to produce a land where "peasants were accustomed to eat beef and wear shoes." What is innovative and important about Berkeley's analysis is that he understands that poverty is not *simply* a function of defect and idleness, his occasional claims to the contrary notwithstanding. Berkeley understands that the poor might be unwilling to exert more labor in a context where additional consumption is either impossible or unattractive, where there are few substitutes, where the economic system of exchange is inefficient, and where most of the income of the poor is spent on subsistence goods (food, basic rents, etc.).

Contemporary scholars have sought to explain why lifting populations out of poverty seems in many cases to be so difficult. Simply providing resources or education has historically not been successful. Thus, many political economists have sought to situate the economic plight of the poor in the context of the institutions in which they live in an attempt to model and explain their behavior (Easterly 2008, 1-44; Acemoglu and Robinson 2012, esp. chap. 15; Williamson 2000; and Easterly 2001). The basic idea we believe Berkeley advances can be likened to that of Amartya Sen and Martha Nussbaum, who argue that combating poverty requires expanding the "capabilities" of individuals and not just employing coarse tools like economic transfers (Sen 1992; Nussbaum

2011, especially chapter 2; Pick and Sirkin 2010). On their view (in rough outline; it has undergone changes over time), the freedom to achieve well-being is of primary moral importance. This freedom must be cashed out in terms of genuine opportunities to do and be what they have reason to value (Robeyns 2016). In short, Sen and Nussbaum advance a theory of human well-being that applies to our discussions of wealth in the present context. One of the critical claims of Sen's analysis is that individuals can adapt to their environment such that they no longer desire what they (reasonably) believe they cannot expect to achieve. Asking the Irish poor to work harder is all well and good, provided that they have some reasonable expectation that such labor might come with attainable rewards.

A capability is "primarily a reflection of the freedom to achieve valuable functionings" (Sen 1992, 49). In other words, Sen's capability theory tries to model behavior by ascribing to an agent a set of functionings (doings and beings) that is achievable or achieved. The agent then selects one "bundle" of functionings within their capability set. Well-being is thus limited by the size and nature of the set itself. An individual with many opportunities and the freedom to choose among them has a higher standard of well-being. Part of alleviating poverty, as a result, includes providing individuals with more possible functionings and more freedom to choose among them. The poor not only have fewer functionings (i.e., actions and states of being that are achievable by them); they also have less freedom to choose from options that might otherwise be technically available to them. This constriction might be for cultural reasons (reared in an oppressive environment, one learns not to value things not immediately accessible) or because of institutional barriers (cultural, political, economic, etc.). Thus, real opportunities to have well-being depend on the actual state of their material being and their capability to choose otherwise.

Berkeley is sensitive to the worry that the poor in Ireland have little or no expectation that their labors will be met with an increase in opportunity and reward. Leisure is a good of considerable value in a restricted domain of life options. In order for the poor to substitute away from leisure, they need to have some expectation that the rewards will be greater than the value of simple leisure. Although Berkeley castigates the Irish poor for being lazy and idle, he simultaneously makes claims that imply he has some sense of their situation. Berkeley is, in effect, trying to appeal *both* to the prejudices of the wealthy classes in Ireland (by referring to the common wisdom that the poor are perhaps deserving of their plight owing to defects in character) and to the poor themselves by promising outcomes that are worth the added effort. We thus suggest that we read Berkeley as attempting to provide a series of proposals that, taken together, might shift the value set of the poor in a way that makes possible an escape from poverty.

Returning to Berkeley's solutions: he also employs incentives, namely, actually improving the standard of living for the people of Ireland:

> Whether comfortable living doth not produce wants, and wants industry, and industry wealth? (Q 107:114)

And where the poor cannot be induced to seek comfortable living themselves, they should be coerced into receiving it:

> Whether temporary servitude would not be the best cure for idleness and beggary? (Q 382:136)
>
> Whether a tax upon dirt would not be one way of encouraging industry? (Q 369:135)

Berkeley's thoughts here extend to discouraging public beggary (Q 61:110) and other behaviors that might reinforce tendencies to idleness. If one does not *see* idleness or have any examples of individuals who seem to prefer it, then less of it will occur.

In addition to encouraging industry and discouraging idleness, Berkeley is clear that he needs to surmount that second obstacle. Reforms must be enacted (both politically and culturally) that *allow* the disadvantaged to reap the rewards of added industry. To start, the poor must have opportunities to work. Where there is no immediate demand for labor, the nation must create it:

> Whether we may not, as well as other nations, contrive employment for them? And whether servitude, chains, and hard labour, for a term of years, would not be a more discouraging as well as a more adequate punishment for felons than even death itself? (Q 54:109)

Although Berkeley appeals for state intervention, he also addresses obliquely the moral weakness of the upper classes:

> Whether there can be a greater reproach on the leading men and the patriots of a country, than that the people should want employment? And whether methods may not be found to employ even the lame and the blind, the dumb, the deaf, and the maimed, in some or other branch of our manufactures? (Q 367:135)
>
> Whether the drift and aim of every wise State should not be, to encourage industry in its members? And whether those who employ neither heads nor hands for the common benefit deserve not to be expelled like drones out of a well-governed State? (Q 3:105)

It falls not only to the state, but to civil society generally, to meet these demands. Thus, for instance, even the church has a role to play in the process:

> Whether it would be a great hardship if every parish were obliged to find work for their poor? (Q 370:135)

In the second element of Berkeley's solution, the state must oversee an economic system that allows the working population to thrive and pursue the satisfaction of their wants. The principal obstacle in Berkeley's mind is the lack of readily available currency and credit. Thus, he proposes monetary reform and authors a proposal to establish a national bank. People in the grip of "metallism"—the view that money only has value when "backed by" something of independent value, like silver or gold—are unwittingly contributing to the reduction of wealth. Money is an instrument to create wealth. As Berkeley asks rhetorically:

> Whether power to command the industry of others be not real wealth? And whether money be not in truth tickets or tokens for conveying and recording such power, and whether it be of great consequence what materials the tickets are made of? (Q 35:107)

The *point* of undermining metallism and promoting the notion of money as a ticket is to open up possibilities for commanding more productive labor.

Berkeley understood the political landscape, however. It was unlikely that England would allow Ireland to have a separate mint and the fiasco of Wood's halfpence in 1722–1724 revealed the deep-seated mistrust that existed between Irish and English elites.[7]

> Whether any other means, equally conducing to excite and circulate the industry of mankind, may not be as useful as money? (Q 6:105)

Money—*anything* that serves as a counter for transactions—spurs industry because it spurs wants and currently unrealized possibilities. Further, if Ireland had a bank to provide credit for domestic projects, more wants could be satisfied and more industry could again be sparked. If the economy of Ireland were focused on putting its own people to work and not primarily on acquiring a favorable balance of trade, there would be no need to think in terms of gold and silver reserves, there or in Britain. Critically, none of this requires foreign trade or any need to meddle with Britain's mercantilist policies. Berkeley's solution aims at "exciting industry" without antagonizing the interests of its occupying power.

Our analysis is not meant to lessen the sting of Berkeley's unfortunate claims about the Irish poor. But even if they reflect Berkeley's true beliefs, that does not alter the fact that Berkeley is both pursuing a rhetorical strategy designed to rouse people to action and advocating a subtle policy prescription aimed at addressing what we might today call the structural or institutional features of Irish poverty in the eighteenth century.

Conclusion

We hope to have made a reasonable case that Berkeley had interesting insights about some institutional factors that apply to the problem of poverty. Might his proposed solutions have been successful? As a start, one should note that not one of his prescriptions was adopted (at least not in his lifetime) beyond perhaps his call for more invective against moral defect. His proposal for a national bank failed (a national bank was not established until 1783, some thirty years after Berkeley's death). His views about money were largely ignored and not implemented in Ireland until the following century (Caffentzis 2011).

Thus, we are left primarily with speculation about how effective Berkeley's prescriptions might have been. Clearly the chorus of voices in the eighteenth century decrying both slothfulness and greed—independently of whether those cries were justified—did not have much impact. The tenancy laws were not substantively changed until the twentieth century. The banking system in Ireland was reformed, but not until the end of the eighteenth century. People, whether slothful and idle or entrepreneurial and industrious, seem not to have changed over the centuries. While humanity's lot has improved, perhaps it is not because there are better people, but because there are better institutions. Berkeley's subtle claim that institutions matter in the alleviation of poverty deserves greater consideration.

Notes

1. The "ticket analogy" is a development in the history of economics that views money as an instrument of value instead of as something with intrinsic value, such as silver and gold were presumed to have (Johnson 1970, 72–82; Q 23:106). Berkeley's adoption of the analogy is a part of his rejection of mercantilist thought and a step in the direction of developing the modern view that all value is ultimately subjective.
2. A cottar is a farm laborer who occupies a cottage, typically in return for services.
3. Stockjobbing is day trading in securities. Likened to gambling, it had (and has) a pejorative connotation.
4. Sumptuary laws regulate expenditure on luxuries or other extravagances, typically through taxes or legal prohibitions.
5. Thus, the pursuit of vice and luxury creates two problems, one economic and the other moral. Berkeley believes that luxury spending impoverishes, on the one hand, other Irishmen and, on the other, the moral character of the spenders themselves. See his critique of Mandeville in *Alciphron* 2, and Tolonen, chapter 27 in this volume.
6. Wealth effects are a species of income effects. All wealth effects are income effects, but not all income effects are wealth effects. In the present case, we are considering changes in the value of a worker's endowment of time and energies which can either be enjoyed as leisure or sold as labor in order to consume. In our analysis of the Irish poor, we are considering wealth effects.
7. Mercantilist principles, in conjunction with a general desire to keep economic and political control of Ireland, made the English hesitant to allow either an Irish mint or a national Irish bank. William Wood, a mintmaster in England, received a patent from King George I to produce a halfpence coin for Ireland, which was suffering from a shortage of small coinage. The halfpence was unpopular, ironically in part because many thought that the introduction of the coin would result in an outflow of gold and silver from Ireland.

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