

Economists, Race, and Racism: The Long View

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December 18, 2020

1 Introduction

Racial protests, activism, and recent unrest in the US and elsewhere have now laid bare centuries of unacknowledged racism and harm and some economists have consequently begun to evaluate our role in these historic events. The leadership at the American Economic Association recently decided to rename its Richard Ely lecture in recognition of Ely's racist writings. Perhaps it is time for the wider economics profession also to acknowledge our history, portions of which are exemplary and other parts of which are rather less so. In what follows, we review economists' views on race and racism from Adam Smith through the reactions to twentieth century models of racial discrimination developed by Kenneth Arrow (1971, 1973) and Edmund Phelps (1972). The project summarizes and extends our previous work on race and racism in political economy. It provides an overview of the economists' changing positions on race and chronicles both their successes, as well as their failures, regarding race and racism. In so doing, we attempt to provide a balanced account of how economists and their tools have influenced debates over race for better or worse. Our account is largely historical—we rely on the texts as evidence of economists' positions viz-a-viz race and racism. It is, however, not neutral: we necessarily wade into the debates on race and racism and bring our own normative views to the positions we consider.

At the outset, we acknowledge that “race” is not a constant quantity in the debates we study.¹ Indeed, race is an ill-defined notion for economists well into the twentieth century. At the mid-nineteenth century, economists used the word race to indicate national or vaguely defined ethnic differences. As will become clear below, discussion at this time focused on the Irish, and on whether a well-defined separate Irish “race” might be identified. Arguments about inferiority—and whether choices caused agents to devolve—were extended to religious groups (the Jews) and to women. Our account takes these “racial” characterizations as they were presented at the time.

We shall begin with the writings of Adam Smith. As we have demonstrated elsewhere at length, Smith’s analysis, and that of the Classical economists who followed in his tradition, are characterized by what we have called analytical egalitarianism, the presumption that humans are the same in their capacity for language and trade. (Peart and Levy 2005) Observed differences in outcomes are explained by incentives, luck, and history, and it is the “vanity of the philosopher” incorrectly to conclude that ordinary people are somehow different from, indeed inferior to, the expert (Smith, *Wealth of Nations*, 1.2. ¶ 4). For Smith, the natural equality of people is so strong that differences among children are nearly imperceptible. This is the basis of Smith’s famous statement that a philosopher and a common street porter are indistinguishable as youngsters but, as a consequence of the division of labor, they appear to be “the most dissimilar characters” as

¹ In the accounts we study, political economists were mostly concerned with “race,” however vaguely defined. We include “racism” in our title because, in our view, those who held that some groups were unable to “develop” without the direction of their purported betters, were racists.

adults.² The universal motivation to trade, Smith's instinct to truck and barter, will play a critical role in what follows.

From Smith, we continue to the nineteenth century, when the debate over race and hierarchy raged within economics and among intellectuals and political elites. We shall demonstrate that this is the period in which "race" became a marker for "inferiority" and the debates centred on whether those deemed "inferior" should be allowed to make political or economic choices. In this era, we argue economists such as J. S. Mill took the view, in line with that of Smith, that almost all people had the capacity to choose. Mill and others called for widespread institutional reforms to end slavery and widen the set of political and economic opportunities available to those formerly enslaved, women, and the Irish. This was the period in which economists were at the extreme forefront of advocating radical institutional reforms with the aim of expanding opportunities for the oppressed. As they did so, many intellectuals, and some political economists, notably W. R. Greg resisted these reforms, and called instead for a

² "The difference between the most dissimilar characters, between a philosopher and a common street porter, for example, seems to arise not so much from nature, as from habit, custom, and education. ... By nature a philosopher is not in genius and disposition half so different from a street porter, as a mastiff is from a greyhound, or a greyhound from a spaniel, or this last from a shepherd's dog. ... But without the disposition to truck, barter, and exchange, every man must have procured to himself every necessary and conveniency of life which he wanted. All must have had the same duties to perform, and the same work to do, and there could have been no such difference of employment as could alone give occasion to any great difference of talents." (WN, Book 1 Chapter 2, ¶ 4).

continuation of the status quo in which women, the Irish, or others would continue to be unable to make political or economic choices.

In a history of racism in economics it is important to examine texts that are no longer considered to be part of economics proper. Mill's 1859 *On Liberty* questions whether all people are ready for self-government and the memo he wrote for the East India Company in 1858 addresses this point in a colonial context. Moreover, while certain texts in economics became canonical because later scholars thought them worth consideration, our study will also review texts that were subsequently deemed repulsive. In short, we address the question economists always ask: what was the alternative?

Towards the end of the nineteenth century the arguments against Mill and others began to win the day and economic analysis became infected with notions of innate difference and purported inferiority. At this time economists succumbed to racialized accounts of difference and advocated reduced choice for those deemed inferior. The most radical, and terrible, of the means to reduce choice—slavery at that time having been mostly overthrown—was the forced sterilization campaign of negative eugenics. Economists who believed they were progressive, supposedly furthering the progress of human “welfare,” strongly advocated for eugenics, including sterilization and immigration restrictions. This is the subject of Section 4 below.

Two additional developments occurred late in the nineteenth century. As we shall see in Section 5, F. Y. Edgeworth made the case, consistent with eugenicists, that social welfare would be improved if inferior people were removed from the calculation. In the same work, however, he presented a racialized version of trade, in which Friday and Robinson act as (Smithian) natural equals in that they share the capacity to pursue what appears to be best for them. Here, despite the horrible eugenic conclusion later in the book, we find a glimmer of a potential

solution to racism: unimpeded trade. However, Edgeworth's procedure was largely uncharacteristic of his time. As detailed in Section 6, post-Classical³ economists such as William Stanley Jevons in the late nineteenth century through Irving Fisher in the early twentieth century proposed wide-scale remaking of those deemed "inferior" often along racialized lines.

Our account finishes with some considerations of how economists came to treat "race" after WWII. At this time, eugenic proposals were mostly discredited (or went underground) as a result of the failed Nazi regime. As described briefly in Section 7, many economists returned to analytical egalitarianism, reviving Mill's homo economicus. However, they began to theorize about how racial variations in outcomes might be explained by racism. That such variations are a result of a taste for discrimination provided a way back into the debates on race that heated up during the civil rights era. This was, perhaps, not our finest hour, as it reduced outcomes either to unassailable primitives, tastes or attempts to find cheaper ways of doing business. Perhaps this is why, late in his career, the Nobel laureate, James Buchanan, came to review and revise his position on race, recognizing that Black Americans had never been offered the Millian "fair start" that economic theory presumed. We review the mainstream economic analysis and Buchanan's proposed revision to it in Section 8.

³ We use the less familiar term post-Classical rather than neoclassical because the transition entailing the rise of hierarchical thinking and the endorsement of eugenic policies or radical remaking of the supposedly inferior people infects a broad set of economists, not all of whom would be considered neoclassical. W. R. Greg is our post-Classical exemplar but there are others. See Peart and Levy (2005), Chapter 4 and Section 5 below for more detail.

2. Starting with Smith: The economics of “natural equals”

Smith’s account of natural equals notably departs from the position of his friend, the economist and philosopher, David Hume. Hume categorically asserted that different species of humans were created separately but only “whites” have revealed a capacity for civilization. (Hume 1987)⁴ The origins of Smith’s position that all people are naturally equal are not Biblical. Instead, his system presumes that people are motivated and self-directed, and they move from environments that appear less favorable to those that appear more favorable.⁵

We notice both aspects of Smith’s egalitarianism at the outset, natural equality and self-direction. In the debates that challenged Smith’s egalitarianism, some intellectuals challenged both natural equality and self-direction, while others denied only natural equality and accepted self-directed motivation. In our understanding, Classical economics holds both principles while

⁴ Richard Popkin (1980) convincingly documents the racist addition to Hume’s essay on national character. Popkin’s demonstration generated ongoing controversy, including that surrounding the question of what motivated the changes in the 1777 edition (Levy and Peart 2016). Most recently, a proposal has been made to remove Hume’s statue at the University of Edinburgh.

⁵ Smith engages with ancient schools of thought, the Stoics especially, in his *Theory of Moral Sentiments*. The Greek Stoic texts had long been lost but fragments came to Smith in reports by their skeptical critics. The skeptics opposed experts in the ancient world who claimed to know what underlay appearances and they asserted we know only how things appear to be. Smith frequently uses the descriptor “seems” without claiming to know what underlies these appearances. His library contained the critical skeptical texts of Sextus Empiricus and Diogenes Laertius in Greek and Latin editions (Mizuta 2000).

neo-classical economics mostly holds only with self-directed motivation. A group that we refer to as post-Classical economists and other intellectuals denied both natural equality and self-directed choice. The distinction between a starting point and the ability to move from one position to another again became important late in the twentieth century.

The signature of natural equality in the *Wealth of Nations* is Smith's chapter on wage differences in a competitive economy. (WN, Book 1, Chapter 10) If everyone is fundamentally the same and they can move at will from occupation to occupation on the basis of what appears best, wages should equalize. (Peart and Levy 2003) Of course, Smith recognizes that there are vast differences in pecuniary wages and he provides reasons for these variations. That analysis persisted for well over a century.

Smith uses the word "race" frequently but, generally for him, race means occupation. He recognizes that some occupations are stigmatized, but the consequence of stigmatization in competitive equilibrium is increased pecuniary wages. He is aware of caste systems in which a worker must follow his father's occupation. Perhaps his use of "race" signifies his recognition of the long tail of a caste system. He mentions that in one caste system, it was a "horrid" offense to leave the occupation of one's father. (WN, Book 1, Chapter 8, ¶ 31; Levy and Peart 2016)

Below we will consider what happens when people are released from slavery. In the larger work, we will return to the immobility created when people are trapped in occupations. Here, it will suffice to call attention to Montiford Longfield's 1834 Whately Lecture in which he considered a weak caste system with some movement in occupation and showed that, with movement at the edges of occupational castes, Smith's equalization result held. (Longfield 1834, pp. 84-85; Peart and Levy 2003) Nonetheless, in his 1848 *Principles of Political Economy* Mill asserted that the labor market in England was not so dissimilar from a caste system (Mill 1965, pp. 387-388).

Smith's analytical egalitarianism played a modest role in the British Act of Emancipation. His anti-slavery remarks were quoted, perhaps to make it clear that one need not be a Biblical literalist to oppose slavery. The other episode often cited as evidence of the early economists' role in the British debates over Emancipation involves Smith's follower, Robert Malthus. Before William Wilberforce was confronted in Parliament by George Hibbert, a spokesman for the "West Indies interests," with the claim that Malthus's population theory defended slavery, Malthus, who had worried about his views being misrepresented, walked to Wilberforce's house to present the abolitionist with a copy of what he actually wrote. Wilberforce responded immediately after the speech with an authoritative denial of Hibbert's account. (Drescher 2002, pp. 42-43) Thus, the involvement of economists in the Act of Emancipation was modest but nonetheless significant. (Drescher, 2002)

3. Nineteenth century economists enter the debates over slavery and hierarchy

The role of British economists in the American abolition movement and other major institutional reforms to enable or promote equality of opportunity in the nineteenth century was more dramatic. Harriet Martineau's documentation of the sexual abuse of slaves fully repudiated claims by American slave owners that they cared for and uplifted their slaves. Martineau's work is well-known and provided the analytical backdrop for Harriet Beecher Stowe's *Uncle Tom's Cabin*. After publishing an anti-slave novel which imagined a slave owner who read *The Wealth of Nations* and introduced piece wages to restore incentives, Martineau was invited to visit the American South in hopes of changing her mind. Because of the strong social gendering of the era, she was able to talk freely with white women on slave plantations who told her they felt like the chief wife in a harem. When confronted by the claim that slavery improved the morals of Southerners—there were fewer prostitutes in Southern than Northern cities—she countered that it

would be inefficient to rent women by the night when one could purchase them for life and sell the resulting children (Levy 2003; Peart and Levy 2003, pp. 141-142). Martineau's work was savagely attacked in America after the publication of *Uncle Tom's Cabin...* (Levy 2001)

As is well-known, the abolition of slavery in the British Empire was accomplished through a tariff on sugar paid for by the British population.⁶ When the tariff was subsequently abolished, unemployment increased in Jamaica. This provided the occasion for Thomas Carlyle's 1849 "Occasional discourse on the Negro question" in which he cited the former slaves' refusal to work as evidence of their innate inferiority and a justification for their re-enslavement. In the essay, Carlyle named political economy the "dismal science" for its role in a coalition with Biblical literalists ("Exeter Hall") who promoted emancipation. (As Steven Darwall has suggested, one might read "dismal science" as "Negro science.") Mill immediately entered the debate with an answer to Carlyle in the next issue of *Fraser's* magazine. ([Mill] 1850) In his dense reply, Mill suggested that the former slaves chose not to work because wages were too low and he noted that when white British workers were on strike for higher wages, Carlyle had not called for their enslavement. Mill's essay was never reprinted in his lifetime and it is infrequently studied. Thus, for example, Martin Bernal's *Black Athena* (Bernal 1987) does not notice Mill's endorsement in the essay of the Afro-centric account of civilization.⁷

⁶ The final stumbling block for the Act of Emancipation was the reluctance among abolitionists to accept a seven-year period with attenuated slavery.

⁷ [Mill] (1850, pp. 29-30). Consistent with Drescher's judgment quoted in the text, Mill points out that Carlyle over-estimated economists' role in emancipation; the movement was fundamentally religious ([Mill 1850, p. 26).

The other racial issue central to Mill's earlier 1848 *Principles* was the question of Irish poverty. For Mill, the Irish were poor because of ill-conceived property rights which discouraged saving and investment as well as a religion that discouraged all forms of contraception, even Malthus's remedy of delayed marriage. Mill in this context attacked the "vulgarity" of racial explanations. When war in America broke out, specialists credit the writings of Mill and Martineau, as well as the work of John Bright, as keeping Britain from recognizing the Confederate States of America.

Like Smith before him, Mill's position was that *all* people (former slaves, the Irish, and women included) possessed the capacity to be free and all could become fully-fledged individuals. He vigorously opposed those in his time who argued that some groups of people were incapable of being free. As noted above, Carlyle (1849), for instance, held that former slaves in Jamaica were unable to correctly decide on their own whether (or how much) to work or not. In his view, left unattended, they would sit around and squander their productive attributes and, consequently, they should be forced to work. Others, such as the political economist Greg, to whom we shall return⁸ attacked the Irish as incapable, with a view of denying them the right to political self-governance. In these accounts, the Irish were portrayed as too impulsive and superstitious to govern themselves.

⁸ Fetter documents Greg's contributions to the early periodical literature on economic subjects in Fetter (1953, 1958, 1962). Perhaps recognizing Greg's unfamiliarity Fetter also notes that he was elected to the Political Economy Club (Political Economy Club 1872). Greg is important as a witness to the egalitarian doctrines of Classical political economy to which he was opposed.

It is important to note just how radical Mill's egalitarianism was in his time. Mill fought hard against those who urged that one group or the other was simply incapable of making reasonable choices without the direction of their supposed betters. More generally, he held that it would stunt intellectual, creative, and moral development of individuals (and society) if some were not offered fulsome opportunities to make choices. Paternalism, making choices for others, harmed individuals and society and kept those who were not given opportunities to make choices unfree, slave- or ape-like. As Mill wrote in *On Liberty*: "He who lets the world, or his own portion of it, choose his plan of life for him, has no need of any other faculty than the ape-like one of imitation. He who chooses his plan for himself, employs all his faculties." (Mill 1977, p. 262)

This contrast between circumstances and natural inclinations is a major theme of Mill's work in the *Principles of Political Economy* and many additional pieces on Ireland. Responding to the enormous suffering caused by the Irish famine, some writers of the time questioned whether Ireland and Irish laborers were doomed to economic stagnation and poverty. Greg blamed the poverty of the Irish laborers on their supposed natural inclinations to be lazy. He suggested that the Irish would never work hard or become productive; they would always be the English Labourer's Burden.

Mill vehemently rejected this supposed explanation. He opposed arguments regarding inherent, racial, national, or ethnic differences and he explicitly attacked statements that relied on "natural differences" in his discussion of the impact of property rights on incentives in Ireland. In Mill's view, the problem was not the workers but rather institutions. Low productivity in Ireland was not a result of a natural inclination to indolence. The passage in his *Principles* on the vulgarity of racial explanations was quoted frequently during the debates over human hierarchy:

Is it not, then, a bitter satire on the mode in which opinions are formed ... to find public instructors of the greatest pretensions, imputing the backwardness of Irish industry, and the want of energy of the Irish people in improving their condition, to a peculiar indolence and insouciance in the Celtic race? Of all vulgar modes of escaping from the consideration of the effect of social and moral influences on the human mind, the most vulgar is that of attributing the diversities of conduct and character to inherent natural differences (Mill 1965, p. 319).

Mill instead imputed Ireland's "backwardness" to distributional arrangements that denied to the Irish the fruits of their labor. In line with his position regarding the former slaves in Jamaica, he argued in this context that people do not work very hard if they are not well rewarded. By contrast, Greg attacked Mill's position and claimed that the Irish were inherently indolent. Any attempt to change the distribution of income through newly established property rights would fail to correct:

"Make them peasant-proprietors," says Mr. Mill. But Mr. Mill forgets that, till you change the character of the Irish cottier, peasant-proprietorship would work no miracle. He would fall behind in the instalments of his purchase-money, and would be called upon to surrender his far. He would often neglect it in idleness, ignorance, jollity and drink, get into debt, and have to sell his property to the nearest owner of a great estate. Mr. Mill never deigns to consider that an Irishman is an Irishman, and not an average human being—and idiomatic and idiosyncratic, not an abstract, man. ... In two generations Ireland would again be England's difficulty, come back upon her in aggravated form ([Greg] 1869, p. 78.)

The argument had real currency for those who lived in England—in Mill’s view, what went wrong in Ireland in the lead up to the famine was a matter of poor institutions, which required radical reform, rather than inherently unproductive workers. Other commentators made the case that, because of their natural proclivity to indolence, Ireland was and would remain the burden of England, with the poor working folk in England suffering as a result.

If we do not read what people like Greg wrote, we do not fully understand the issue. It needs to be emphasized that debate centered around whether poverty resulted from natural characters or from disastrous institutions. Mill’s discussions of institutional reforms are the alternative to such discussions as what is to be done about “inferior” races or genders. As noted, Mill targeted landed property that assigned rights to absent landowners and left the laboring poor in wretched conditions of poverty in Ireland. He published the first edition of his *Principles of Political Economy* just as hundreds of thousands of Irish peasants starved, succumbed to disease, or fled their homes in the wake of the Irish potato blights and famine. Mill recommended that Irish cottiers be converted to peasant proprietors through what would have amounted to a massive land redistribution, with compensation:

The land of Ireland, the land of every country, belongs to the people of that country. The individuals called landowners have no right, in morality and justice, to anything but the rent, or compensation for its saleable value. With regard to the land itself, the paramount consideration is, by what mode of appropriation and of cultivation it can be made most useful to the collective body of its inhabitants (1965, p. 326).

Agitation for widespread reform was significant throughout the century. The Reform Act of 1832 had increased the voting public to about 20 per cent of English adult males (Hollander 2015, p. 530), while the coming of the Second Reform Act in 1867 lent additional urgency to

Mill's writings on self-governance. Mill's opinions on these matters, voiced in print and in Parliament, were unpopular with many of his contemporaries, being too radical for their way of thinking. Included among them was his (failed) attempt to change the wording of the Reform Bill to refer to *persons* instead of men.⁹ It bears noting, as emphasized how extremely radical this was for Mill's time. Mill's contemporaries understood the significance of his advocacy for democratic reform, including the extension of the franchise to the laboring poor and women. *Punch* ridiculed Mill for his positions on political representation, especially his position regarding "persons," (including women) who deserved the suffrage. (Levy and Peart 2005)

Of course, any systematic study of racism in British economics must deal with the question of who was supposed to be ready for self-government. Here, perhaps, Mill is open to criticism. Indeed, he went so far as to suggest on utilitarian grounds that it might occasionally be best for despots to rule those who were unready for the responsibilities associated with democracy. Mill described in some detail a set of conditions for successful self-governance to ensure that the polity would not descend into factional violence or majoritarian taking. In his view, a minimal amount of mutual regard, which political theorists of the time conceived of as sympathy, was a necessary condition for the representative form of government. He argued that when people in a polity have mutual regard for one another, this provides a sufficiently motivating force to prevent a descent into civil war between factions.

Thus, despite his radical advocacy for widening the suffrage, Mill held that not all people are ready for self-governance. Here he opened himself up to criticism on the grounds of inconsistency—is Mill *really* for liberty, or just for the liberty of some?—and/or paternalism. In

⁹ For a detailed examination, see Reeves 2007, pp. 422-25, and the references therein.

his 1861 *Considerations on Representative Government*, Mill sketched three conditions of readiness. First, he wrote that there is no point in thrusting self-governance on a people who do not want it (an action that, one might argue, itself is paternalistic). They must be “willing to accept it; or at least not so unwilling, as to oppose an insurmountable obstacle to its establishment” (Mill 1977. p. 376). Further, they must be willing to make self-governance work, “to do what is necessary to keep it standing” (p. 376). Finally, they “must be willing and able to do what it requires of them to enable it to fulfil its purposes,” “capable of fulfilling the conditions of action, and the conditions of self-restraint, which are necessary either for keeping the established polity in existence, or for enabling it to achieve the ends, its conduciveness to which forms its recommendation” (p. 376). This latter condition, entailing sufficient “self-restraint,” would in Mill’s view prevent factionalized violence between opposing groups.

Absent these conditions, Mill opined that people are unready for self-governance. Considering the question of the suffrage in England, Mill pointed to “the twofold danger” associated with representative government, “too low a standard of political intelligence, and that of class legislation” (Mill 1977. p. 473). A voting population characterized by indolent, careless, or cowardly voters, those who lacked public spirit, or were easily duped—who “can be induced to lay their liberties at the feet even of a great man, or trust him with powers which enable him to subvert their institutions” (p. 377)—may be incapable of the self-restraint required to prevent class warfare and taking. They may be incapable of the self-restraint necessary for civil society, “unable to practise the forbearances which it demands: their passions may be too violent, or their personal pride too exacting, to forego private conflict, and leave to the laws the avenging of their real or supposed wrongs” (p. 377).

Mill worried about factionalized violence that would result when sub-groups of a

populous were insufficiently respectful of each other's hopes and desires. Yet he did *not* conclude that in all cases where people lacked habits of civility and self-restraint they should be ruled by a dictator or some other entity. The question was one of degree. Some form of democracy would work, poorly or better, depending on the "mental habits" of the people:

But however little blame may be due to those in whom these mental habits have grown up, and however the habits may be ultimately conquerable by better government, yet while they exist, a people so disposed cannot be governed with as little power exercised over them, as a people whose sympathies are on the side of the law, and who are willing to give active assistance in its enforcement. ... it must be understood that the amount of the hindrance may be either greater or less. It may be so great as to make the form of government work very ill, without absolutely precluding its existence, or hindering it from being practically preferable to any other which can be had (Mill [1861] 1977. p. 378).

In this context, Mill's views on India, detailed in his 1858 memorandum, published without attribution by the East India Company, are important (Mill 1990, p. 92). He titled the memo, "Improvements in the administration of India during the last thirty years."¹⁰ The closing passages in the section, "Protection and Improvement of Oppressed Races," contain his assessment of when people *in colonies* are prepared for self-government—once the rule of law is demonstrably and generally accepted in the polity and factional violence subsides. Mill makes it clear that the inhabitants of India demonstrated readiness for self-governance, and he was apparently thus able to square working with the East India Company with his desire for reform,

¹⁰ See Hollander (2015), p. 408.

including self-determination. Mill examined a number of reforms that moved the colony toward readiness for self-rule. He observed that such reforms were increasingly implemented in the colony via discussion rather than force—instead of imposing reforms by brute force, British officers worked with local inhabitants. In some cases, army officers traveled alone to remote areas and spoke with inhabitants so that “the object which had for years been vainly sought by force, was accomplished by explanation and persuasion” (Mill 1990 [1858], p. 154). Local inhabitants who participated in the implementation of these reforms were motivated to restrain unjust acts by an appreciation of the unjustness of enslaving a portion of the population. Moreover, they were capable of the give-and-take of discussion. In Mill’s mind, they demonstrated readiness for self-governance.

Of course, although he himself presented details about when people would be ready for self-rule, the devil would be in the details—how soon would a people “ready” and who would decide when they were “ready” for self-governance? In hindsight, it seems that Mill paid insufficient attention to such questions. Added to this fact that for most of his adult life Mill worked for the East India Company, he is open to the charge of enabling colonial domination. It is important to keep in mind, however, that Mill regarded the ultimate aim of British rule in India as one of ensuring a transition to self-governance in that country. As Alan Ryan has put it, he favored “a self-abolishing imperialism.”¹¹ Whether that is enough to insulate him from a charge

¹¹ “Unlike imperialists whose goal was the greater glory of the imperial power, Mill envisaged self-abolishing imperialism; if it was justified it was an educative enterprise, and if successful its conclusion was the creation of independent liberal-democratic societies everywhere” (Ryan 1999 pp. 15-16). For a detailed examination of Mill on India, see also Hollander (2015, pp. 386-423).

of paternalism is an open question.

From today's vantage point, Mill may seem out-of-touch on this topic, perhaps insufficiently appreciative of the nature and successes of institutions in far-away lands, and not agitating soon enough or strongly enough for political self-governance in India. Without endorsing dictatorship (as have some twentieth century economists),¹² however, it is important to recognize Mill's key points in this respect: sub-groups in a polity must respect each other enough to avoid internecine violence, civil war, or enslavement; if mutual respect is lacking, they will be unable to live, and govern themselves, together. Genocides of the twentieth century, such as that in Rwanda have borne out the validity of Mill's worries about factional violence when minimal amounts of mutual respect are lacking. The greatest lesson of economics is to ask what is the alternative. To this we now turn.

4. Two case studies: Eugenics and Eyre

In this section, we explore two examples of the debates about hierarchy in more detail. The first episode is referred to as the "Governor Eyre Controversy," an uprising and its aftermath in Jamaica shortly after the end of the American Civil War. As Governor Eyre deployed State-sponsored brutality and murder and the controversy began, Mill's inevitable opponent, Greg used the occasion to revive Carlyle's proposal for re-enslavement ([Greg] 1866). In the meantime, British evangelicals began a movement to hold the Governor accountable for his actions and they selected Mill to speak for the anti-racist coalition of Christian believers and the leading

¹² Unfortunately, economists such as F. A. Hayek and Milton Friedman have a checkered history as it relates to dictatorship. For a careful study of their position as it relates to Chile, see Andrew Farrant (2019).

evolutionary thinkers of the time, Herbert Spencer, Charles Darwin and T. H. Huxley. The coalition failed to secure Eyre's punishment and Mill soon after lost his seat in Parliament (Semmel 1962).

The second, and longer lasting episode is the development of eugenics, a movement on which economists have a checkered history. In 1864, A. R. Wallace presented a paper at the Anthropological Society in which he argued that human sympathy and the division of labor attenuate natural selection. (Wallace 1864) Sympathetic humans do not let the infirm perish, he suggested, and the division of labor allows people of differing abilities to support themselves and their children. Perhaps because natural selection had been by then given a theological interpretation by Darwin in correspondence with Charles Kingsley (Levy and Peart 2006), negative reaction to Wallace's paper was swift. If sympathy attenuated natural selection, the response by his critics was that sympathy for the "unfit" should be reduced. Greg was also the first to use the word "unfit" in print and to make the case that people should feel less sympathy for the inferior ([Greg] 1868). His role in the development of eugenic thinking has largely been forgotten, perhaps because of Francis Galton's overwhelming importance in the development of eugenics within the British statistical community.¹³

4.i) The Governor Eyre Controversy

¹³ An extract from Greg (1868) is included in the University of Chicago reader, under the title "The Quality of Population" along with the editorial note that Malthus presupposed a homogenous population (Greg 1912). The reader itself provides evidence of economics at the University of Chicago at this time and demonstrates the influence of T. N. Carver (Peart and Levy, 2013; Fiotio and Cosma 2017).

Perhaps the clearest illustration of the divide over whether all people are capable of making choices occurred in the context of colonial policy, in particular, the Governor Eyre Controversy (Semmel 1962, Peart and Levy 2005). The controversy surrounded the response by Governor Eyre to a minor uprising amongst former slaves in Jamaica; and whether the rule of law applied to former slaves, as to everyone else. Those who took the view that some are more capable than others saw no problem with Eyre's response to the uprising using piano wire as whips and murdering Jamaicans without benefit of trial. For those, like Mill, who held the rule of law applied to all people regardless of race, Eyre's response was entirely unwarranted. Perhaps unsurprisingly, Mill was elected in his absence to lead the group that sought to bring the Governor to trial for his crimes, while Carlyle's disciple, John Ruskin headed the movement to defend Governor Eyre.

Here, too, Greg entered the fray. He chose the occasion of the Eyre controversy to publish an essay in an 1866 issue of *Fraser's Magazine*—the periodical that in 1849 published Carlyle's "Occasional Discourse on the Negro Question"—on the issue of race and economic development ([Greg] 1866). The essay is particularly illuminating because Greg began with a criticism of the Millian race-blind account, that culture is endogenous to material incentives. We quote at length from this unfamiliar text to demonstrate the basis of post-Classical opposition to Classical economics.

Greg begins by pointing out that it is too early to have an informed opinion on the events in Jamaica since the official inquiry had not been released. However, in his view it was not too early to ask whether emancipation has succeeded. He remarked, first, that emancipation had harmed the planters, who were "irretrievably ruined" and "leaving the island". Yet all that might be "little in our minds if the coloured population were growing prosperous, moral, educated, and

contented”. Greg next addressed this question. He first confronted the thesis of cultural endogeneity articulated in foundational form in the *Wealth of Nations*. Smith’s central claim was that “all men” are predisposed to idleness:

It will not, however, do to say, as some cynics and disappointed philanthropists are beginning to say, “Never mind if the negro is idle. All men, even Anglo-Saxons, will be idle under a tropical sun. Why should the negro work, if he can live without work? ... If he prefers contentment with the bare necessities of life, it may be that he is a truer philosopher than we who reprove him and would stimulate him. If he chooses to be lazy, he has a right to be so. It is sufficient that he is free, and that we have secured to him his rights.” (1866, p. 279)

Against this Smithian thesis, Greg argues for an exogenously determined hierarchy of race. Absent slavery, the Jamaicans have sunk into indolence. Greg is clear that material output is critical:

If this be the result, emancipation must be admitted to have failed. . . . naked inaction, basking indolence, the animal enjoyment and dreary vacuity of barbaric ease, were not the purposes for which even Africans were created, or in which they were designed by Providence to remain; . . . vegetable life, life amid yams and plantains, with a cloth round them loins and a thatch over their heads—is not a condition into which England can or ought to allow half a million of her subjects, whom she has taken in hand, to sink; ... (1866, p. 279)

Unsurprisingly, Greg does not stop with this conclusion. He continues to argue that, lacking capacity and inclination, the former slaves must be forced to civilize, to work, to prevent a “relapse into savagery”:

The negro must be civilised— . . . He has no right to be a savage; God made him and all men for advance; he must improve, or die out; . . . If the negro can rise and civilise, however slowly, by himself and under his own guidance, by all means leave him to himself, and give him time; if he cannot, then help him, guide him, control him, compel him; but never dream of sitting down helplessly content with a failure of hopes and prophecies and duties so signal—so fatal to him, so discreditable to ourselves. (1866, p. 279)

Since self-direction apparently failed to yield the largest physical output, Greg favors the path expounded by Carlyle, removing self-direction and placing Jamaicans under supervision (1866, p. 299). Thus, for Greg, stationarity of output presents a justification for re-enslavement. Mill had earlier taken up the issue of stationarity, and came to a very different conclusion. Indeed, in his *Principles of Political Economy* Mill examined, and defended, the stationarity of physical product. For Mill, growth of material output is not an end in itself; rather as people's choices evolve over time they may well substitute into non-material output and enjoy more leisure with stable levels of material goods:

I confess I am not charmed with the with the ideal of life held out by those who think that the normal state of human beings is that of struggling to get on; that the trampling, crushing, elbowing, and treading on each other's heels, which form the existing type of social life, are the most desirable lot of human kind, or anything but the disagreeable symptoms of one of the phases of industrial progress. It may be a necessary stage in the progress of civilization, and those European nations which have hitherto been so fortunate as to be preserved from it, may have it yet to undergo. (Mill 1965, pp. 753-74)

At the end of the day, for Mill work is instrumental and people of all races (though, as noted above, perhaps not all cultures) are best able to make decisions about how much to work. The key for Mill is that those in what he thought of as “backward” cultures will acquire habits of decision making as education and experience enables them to do so.

The theme that “inferior” people who are not directed by their betters will devolve is also evident in Victorian popular culture. Perhaps the most successful example, taking the measure of success as book sales, is Kingsley’s *Water-Babies*, a work whose importance is certified by favorable reviews in both the *Anthropological Review* and *The Times* as blending Carlyle and Darwin (Peart and Levy 2005, pp. 40-42; Levy and Peart 2006). Another dramatic illustration of the thesis is Charles Bennett’s image, “Slavey,” which suggests that women who make their own choices to pursue happiness are doomed to devolve.¹⁴ In the below image a woman makes a self-directed choice to enter the labor market and earn wages. In so doing she, like the former slaves in Jamaica, devolves into an “inferior” creature. To cement the comparison between Slavey and the former slaves, the caption to the image, contained in a book entitled *Shadow and Substance*, refers to Carlyle’s 1849 article about the former slaves in Jamaica.

¹⁴ See Peart and Levy 2005; Levy and Peart 2006. Kingsley, as far as we know, never attacked Mill’s positions. He did, however, offer a theological interpretation of natural selection that Darwin was quick to seize upon in the second (and in all later) editions. We have recently obtained correspondence between Kingsley and his slave owning family in the West Indies.



Figure 1. Devolution as a Result of Choice

4ii) Natural selection and the rise of eugenic thinking in economics

In 1868, Greg published his influential essay, “On the Failure of ‘Natural Selection’ in the Case of Man” in *Fraser’s Magazine*. In it, he argued that without intervention those with inferior capabilities would multiply rapidly and thereby reduce the “salutary” effects of the “righteous” law of natural selection. Along with essays by Wallace and Galton, Greg’s essay is featured in Darwin’s *Descent of Man* (1871, p. 161). The context of Greg’s essay is the 1864 paper presented at the Anthropological Society by Alfred Wallace. Wallace described the law of natural selection and he argued that human sympathy for one another and the division of labor attenuate the effects of natural selection in humans.¹⁵ For Wallace, this provided an interesting example of how humans differ from other species.

For Greg, however, this interference with natural selection impeded human progress:

Our thesis is this: that the indisputable effect of the state of social progress and culture we have reached, of our high civilisation, in a word, is to counteract and suspend the operation of that righteous and salutary law of “natural selection” in virtue of which the best specimens of the race—the strongest, the finest, the worthiest—are those which survive, surmount, become paramount, and take precedence; succeed and triumph in the struggle for existence, become the especial progenitors of future generations, continue the species, and propagate an ever improving and perfecting type of humanity. ([Greg] 1868, p 356)

¹⁵ Levy and Peart (2015) discuss the role of sympathy in nineteenth century evolutionary thinking.

In his *Principles of Political Economy*, Mill had advocated for a self-directed Malthusian population restraint as a means to reduce human misery and attain happiness. For Greg, such Malthusian prudential restraint on population growth placed human happiness ahead of the new economic goal of human “progress” and, as such, Greg eschewed such self-directed choices as leading to devolution. Greg argued that Malthus’s population restraint operated differently in different races:

The careless, squalid, unaspiring Irishman, fed on potatoes, living in a pig-stye, doting on a superstition, multiplies like rabbits or ephemera:—the frugal, foreseeing, self-respecting, ambitious Scot, stern in his morality, spiritual in his faith, sagacious and disciplined in his intelligence, passes his best years in struggle and in celibacy, marries late, and leaves few behind him. Given a land originally peopled by a thousand Saxons and a thousand Celts ... In the eternal ‘struggle for existence,’ it would be the inferior and less favoured race that had prevailed,—and prevailed by virtue not of its qualities but of its faults, by reason not of its stronger vitality but of its weaker reticence and its narrower brain.

For Greg, and those who endorsed this view, there was no point in suggesting, as Mill had, that the Irish would make different, more prudential choices, in the wake of new institutions. Nothing short of direction by their betters or a negative eugenic policy would improve the situation.¹⁶ It is

¹⁶ In terms that the eugenicists employed, “positive” eugenics encouraged births from the desired part of the distribution of the population whereas “negative” eugenics discouraged births from the undesired part. Levy and Peart (2015) trace negative eugenics to an 1874 essay by George Darwin in which he criticized Francis Galton’s “positive” proposals as insufficient to attain the

worthy of note that Darwin quoted, inexactly, Greg's view of the relative worth of Scots and Irish in *Descent of Man* (Darwin 1871, p. 167).

5 Reading *Mathematical Psychics* in a racial context

The above episodes allow us to compare two portions of Edgeworth's *Mathematical Psychics*. (Edgeworth 1881) As we have detailed elsewhere, Edgeworth is clear in the latter part of that work about his adherence to the doctrine of natural *inequality*. Edgeworth here modifies the arguments of Greg, Darwin and others, sketched above, to obtain the result that the capacity for happiness varies such that "lesser" people's lifetime utility integrates to zero or below. He goes as far as to endorse Galton's proposal for the removal of such people from the calculation of social welfare by moving them to celibate monasteries (Edgeworth 1881; Stigler 1981, p. 12; Peart and Levy 2005, pp. 226-233). Such a conclusion depends on an absence of the type of sympathy, discussed above, proposed by Wallace (and others) that protects the health and well-being of the weaker members of society from predation.

Is the absence of sympathy for one another a general feature of Edgeworth's work? Certainly the famous Edgeworth trading box, developed subsequently to the publication of Edgeworth's *Mathematical Psychics* represents trade between two people who care nothing for the very existence of each other. However, it bears noting that the Edgeworth box diagram is nowhere in Edgeworth's work and, as we shall see, it misrepresents Edgeworth's description of the results of trade between two racially different, natural equals, Friday and Robinson. The key

"general good." George Darwin criticized Greg's unwillingness to put his concerns into legislation.

difference between the “Edgeworth” box and Edgeworth’s actual depiction of trade is that he allows an exit option that the textbook version precludes.¹⁷

Trade depends on sympathy, the traders caring for one another. As motivation for *Mathematical Psychics*, Edgeworth distinguishes the practice of previous economic research, that of William Stanley Jevons in particular, from the doctrine of Spencer.¹⁸ The critical issue is that of sympathetic agency:

the greatest possible quantity of happiness *under conditions*; whether the condition of that perfect disintegration and unsympathetic isolation abstractedly assumed in Economics, or those intermediate conditions of what Herbert Spencer might term integration on to that

¹⁷ Jaffé (1974, pp. 343-44): “... nowhere in Edgeworth’s published writings is there anything resembling what is so frequently referred to as an “Edgeworth box diagram.” ... Technically speaking, Edgeworth’s box Contract Curve diagram could be converted into a box diagram of specific dimensions if the initial endowments, which Edgeworth deliberately chose to leave implicit were explicitly specified.” Jaffé (1972, p. 1190: “Posterity ... depriving Pareto of his rightful claim to the wrongly called ‘Edgeworth Box Diagram’ (nowhere found in Edgeworth, but making its first appearance in Pareto’s *Manuale*, 1906, Chapter III §116.)

¹⁸ The reference to “perfect disintegration and unsympathetic isolation” is suggestive of Gossen’s work. The one index reference to “sympathy” in the scholarly edition of Gossen is: “sympathy, undesirability of, 116.” (Gossen 1983, p. 314). If indeed Edgeworth sees that Gossen requires reclusive agency, this may solve the problem stated by Nicholas Georgescu-Roegen (1983, p. cvi): “There are, of course, common points between Edgeworth’s and Gossen’s arguments about barter. It is, therefore all the more curious that Edgeworth was not struck at all by the similarity.”

perfected utilitarian sympathy in which the pleasures of another are accounted equal with one's own. These are diversities of condition, but only one maximum-principle; many stage of evolution, but "one increasing purpose" (1881, p. 12).

Integration would have been a familiar term to readers of Spencer's *Psychology*.¹⁹

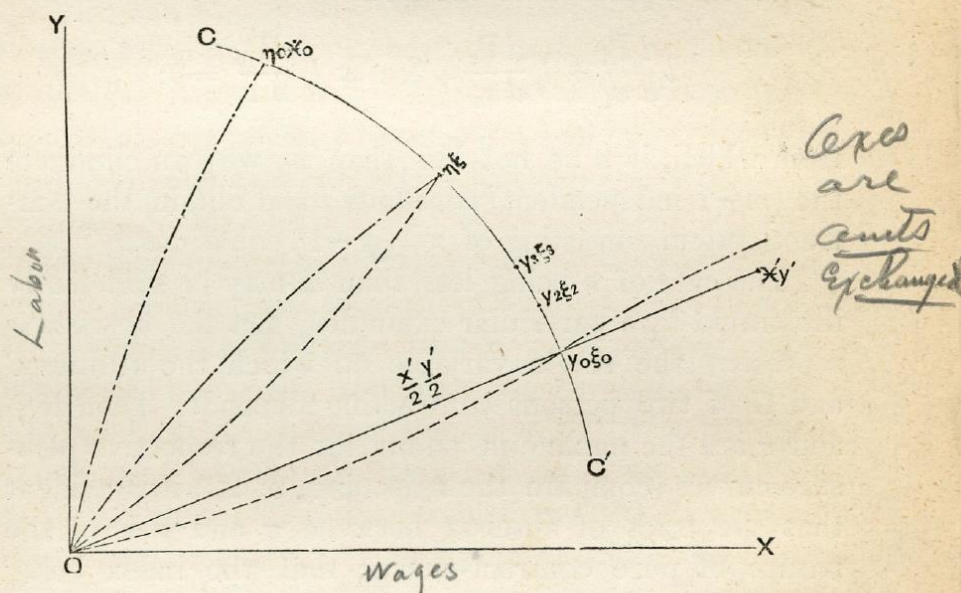
Edgeworth's passages on trade, along with Frank Knight's annotations (Edgeworth 1881 p. 28), depict trade in labor for wages, rather than the textbook version of apples for nuts. The racial difference between the traders is clear.

¹⁹ Spencer (1855, p. 333): "Every case in which an advancing intelligence distinguishes between objects, or phenomena, or laws, that were previously confounded together as of like kind, implies a differentiation of states of consciousness. And every case in which such advancing intelligence recognizes, as of the same essential nature, objects, or phenomena, or laws, that were previously thought distinct, implies an integration of states of consciousness. Under its most general aspect therefore, all mental action whatever is definable as *the continuous differentiation and integration of states of consciousness*."

*E. interested
in trade
unions,
that seem
to exist among
them (H.S.)
of 44 (43) 68*

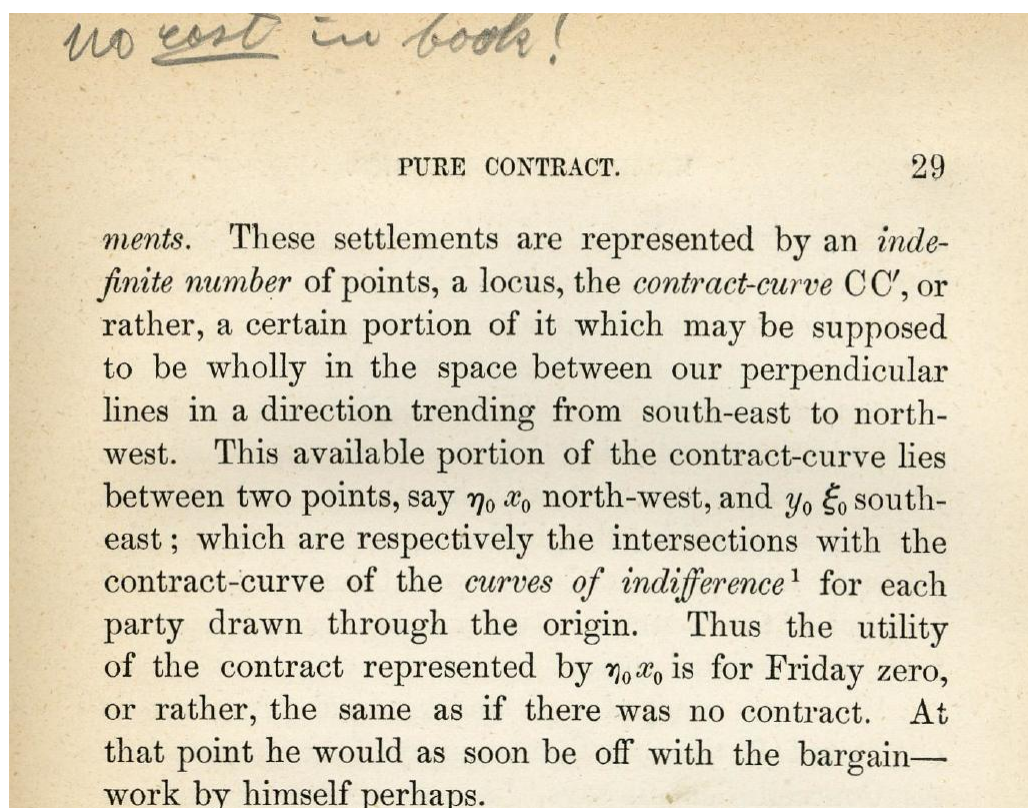
It is not necessary for the purpose of the present study to carry the analysis further. To gather up and fix our thoughts, let us imagine a simple case—Robinson Crusoe contracting with Friday. The *articles* of contract: wages to be given by the white, labour to be given by the black. Let Robinson Crusoe = X. Represent y , the labour given by Friday, by a horizontal line measured northward from an assumed point, and measure x , the remuneration given by Crusoe, from the same point along an eastward line (See accompanying figure 1.). Then

FIG. 1.



any point between these lines represents a contract. It will very generally be the interest of both parties to vary the articles of any contract taken at random. But there is a class of contracts to the variation of which the consent of *both* parties cannot be obtained, of settle-

The labels of the axes are in Knight's hand. As he notes, the axes are the "amts exchanged." On the next page Edgeworth establishes a zero point for exchange:



Edgeworth next lays out a zero labor, zero wages point and a curve of positive wages, positive labor which is indifferent to that origin for both Robinson and Friday. Unlike the textbook box that carries his name, Edgeworth himself points out that each trader has an exit option. What is critical is that in Edgeworth's model Friday is perfectly capable of directing himself: "At that point he would as soon be off with the bargain—work by himself perhaps."

Importantly, Edgeworth stresses that "economic agency" is reclusive but Friday and Robinson are sympathetic agents:

Here may be the place to observe that if we suppose our contractors to be in a sensible degree not "economic" agents, but actuated in effective moments by a sympathy with each other's interests (as even now in domestic, and one day perhaps in political,

contracts), we might suppose that the object which X (whose own utility is U_X), tends—in a calm, effective moment—to maximise, is not P , but $P + \lambda \Pi$; where λ is a coefficient of effective sympathy. And similarly Y—not of course while rushing to self-gratification, but in those regnant moments which characterise an ethical “method”—may propose to himself as end $\Pi + \mu P$. What, then, will be the contract-curve of these modified contractors? *The old contract curve between narrower limits.* In fig. 1, y_0x_0 will have been displaced in a north-westerly and η_0x_0 in a south-easterly direction. As the coefficients of sympathy increase, utilitarianism becomes more pure, (cf. pp. 12,17), the contract-curve narrows down to the utilitarian point.

With sympathetic agency and the evolutionary trajectory suggested by Spencer and mentioned by Edgeworth, the equilibrium will move to the interior and prevent isolation. Edgeworth’s catallactic atoms trade across races. That is remarkable especially when we appreciate what Spencer’s integration to which Edgeworth points would entail.

Thus, Edgeworth’s account of trade in *Mathematical Psychics* depends upon each trader having the desire and the capacity to move from a position that appears worse to a position that appears better. Smith’s instinct to truck and barter reformulated by Edgeworth is common to Robinson and Friday. This is the dynamic aspect of Smith’s natural equality: if Robinson is insufficiently sympathetic and his offer of wages is too low, Friday can simply leave to find land of his own. (Edgeworth 1881, pp. 28-29) Edgeworth’s exposition is in line with Mill’s response to Carlyle, but without knowing either Carlyle or Greg it would be difficult to appreciate that he has implicitly modeled his traders as natural equals. Edgeworth further emphasized that his traders are equally capable of pursuing interests when he contrasted his account of the catallactic

atom – the isolated couple – with Jevon’s group equilibrium, the catallatic molecule. (Edgeworth 1881, p. 31) Catallactics imposes an analytical egalitarianism regardless of the point of view of the modeler because both traders are capable of pursuing what appears best to them.

Of course, what if institutions do not allow escape and institutional arrangements preserve power structures and ensure that escape is impossible? Unlike Mill, who worked hard to ensure that women could leave unwanted marriages despite the power differential that existed between men and women, Edgeworth entirely ignored these possibilities. Perhaps for this reason, his analysis would shortly be translated into the Edgeworth trading box in which exit is simply no longer an option, institutions are entirely absent, and nothing is path dependent. We shall return to these questions in Section 8.

In the meantime, we must reflect upon the remarkable egalitarianism of Edgeworth’s trading model, in the context of the Carlyle-Greg re-enslavement proposals, when only a few pages later, he worked out conditions in which a society is made no worse, perhaps better, if a person whose lifetime utility is non-positive is removed so as to provide a utilitarian framework for eugenics. This is not a situation where Edgeworth later in life came to reject a position from his early years. Instead, the two positions are in the same book separated by only a few dozen pages!

We take this as a natural experiment to consider the two aspects of Smith’s natural equality. As noted above, the first is that children are indistinguishable. Edgeworth does not accept that proposition. The second is that any person will move from a position that appears worse to a position that appears better. This is the center of what Richard Whately called catallactics. Edgeworth was the last 19th century speaker for catallactics and this sufficed to make

his trading model egalitarian. The turn toward egalitarianism by the next great adherent of catallactics, Buchanan (1964) will be considered in Section 8.

6 Late nineteenth century and beyond: Racial explanations of “ignorance” and “vice”

Edgeworth seems to have been unique among his peers in making exchange foundational and so preserving a universal principle of self-motivation. In line with Edgeworth’s eugenic positions that appear when he was not considering trade, post-Classical economists increasingly presupposed racial variations in the capacity for economic decision-making. What separates many of the treatments from the Edgeworth trading model described above, is that many post-Classical economists endorsed a wide range of policies designed to remake the preferences of those held to be “inferior.” In contrast with Friday, then, who trades with Robinson on the basis of equality, Jevons and other post-Classical economists regarded their traders as in need of improvement.

While discussions of race among post-Classical economists were by no means uniform, including variations between British and American post-Classical economists, there is a common thread: racialized groups purportedly make inferior decisions. For the most part, this thinking held that the “inferior” race differed in terms of some parameter(s) such as work effort, time preference, or family size. A. C. Pigou, Irving Fisher, and J. R. Commons showed a marked concern with purported lower work effort, improvidence, alcoholism, inability to control sexual passion, and overall carelessness among the lower classes. Throughout, some imprecision exists as to whether post-Classical economists had in mind the lower classes or a racial or ethnic types. British economists typically focused on the lower classes and argued that they working classes are creatures of passion, unable to plan for the future and unusually susceptible to alcoholism (Peart 2000). Yet when the Irish were involved, class signified race, as Jevons (1870) reveals.

For Alfred Marshall, the “industrial” classes are racially inferior: as conquest and the intermixture of races occurred, the inferior (yet still White) races sort themselves into the lower ranks of industrial society (1890, p. 195). The legacy of slavery looms large in the work of the early twentieth century American writers, including Fetter and Commons. Both British and American post-Classical economists feared the supposed dysgenic effects of immigration.

Jevons’s procedure in his *Theory of Political Economy* was to propose a theoretical problem to solve for the equilibrium conditions of an imaginary, all-knowing consumer.²⁰ He emphasized that his task was to specify conditions of equilibrium choice, given a fixed price ratio, and he used a number of analogies to characterize equilibrium as a resting point, as when the motion of a pendulum ceases. At the same time, he recognized that consumers in practice do not attain these conditions and he outlined two reasons for this: unsystematic mistakes that apparently averaged out over time (or across consumers), and systematic mistakes. The latter concerned Jevons most, and it was here that he saw broad scope for education and improvement. In his account, poor people and especially poor Irish people, were naturally prone to such biases. Jevons worried that they systematically under-saved, overworked, married poorly, underinvested in education, and acquired what Jevons regarded as inferior tastes. These situations warranted a wide array of policy interventions to move people closer to his all-knowing, perfect consumer. Given the discussion above, it is unsurprising that Jevons regarded time preference as a major

²⁰ For a more detailed exploration of Jevons’s procedure as well as some comparisons with Carl Menger, see Peart (2021).

cause of systematic error.²¹ In his view, the purported character flaw implied that, without intervention, individuals do not save enough for their future.

Jevons was not sanguine that people would learn through their mistakes and correct their choices over time. Thus, he recommended a series of interventions to besiege the “citadel of poverty and ignorance and vice,” and reshape the preferences of the poor.²² In his view, for example, poor women were prone to marrying the wrong sort of man and working in factories when it would be prudent for them to stay home with their small children (Jevons 1882, pp. 156-179). This issue formed the “most important question touching the relation of the State to labour,” one requiring a radical policy intervention. Along similar lines, in his *Theory of Political Economy* Jevons turned to a policy solution in the case of gambling. For the “gamester,” “so devoid of tastes that to spend money over the gaming-table is the best use he can discover for it, economically speaking, there is nothing further to be said. The question becomes a moral, legislative, or political one” (Jevons 1871, pp. 160-61). Jevons’s thinking about remaking his subjects is further evident in another piece published in *Methods of Social Reform*,

²¹ This is a common theme in early neoclassical discussions of mistaken behavior. See Peart (2000) for an in depth review of how Marshall, Pigou, and Fisher all held that agents are overly impatient and suffer from lack of willpower.

²² Jevons frequently made use of the then-common linkage between ignorance and morality or, as it was often described at the time, “vice.” A striking example occurs in the analysis of speculative behavior over the business cycle. The Manchester banker who succeeded Jevons as head of the Manchester Statistical Society, John Mills wrote about “ignorant speculation” and “immoral risks” and likened speculators to “MacHeaths” and “Turpins.” See Peart 1996.

his 1869 “Inaugural Address” as President of the Manchester Statistical Society. There, Jevons linked the persistence of deep poverty to “social arrangements” and the “habits of the people.” Again his preoccupation with intemperance and apparently low rates of savings is evident: “As pauperism is the general resultant of all that is wrong in our social arrangements it cannot be destroyed by any single measure; it can only be reduced by such exertions as raise the intelligence and provident habits of the people” (Jevons 1869, p. 186).

Throughout, Jevons emphasized the need for not only reducing ignorance (raising intelligence) but also improving their morals (improving their provident habits). He insisted that improving the standard of living for the laboring classes would have no lasting impact if it were not accompanied by a change in character: “Material well-being has comparatively little effect, for, however high the wages of an artisan may be, they may be spent intemperately, and on the slightest reverse of fortune his family or himself may come to the workhouse” (Jevons 1869, p. 186).

7. The return to analytical egalitarianism at mid-century

The doctrine of national character found so dramatically in Hume’s *Essays* became a staple in neo-Ricardian trade theory which depended on differences between countries to explain trade. As developed by Eli Heckscher and Bertil Ohlin, however, international trade theory dealt a key blow to such racial explanations. Heckscher was acutely sensitive to racism. His *Mercantalism* pointed to Colbert’s policy of treating young women as animals by sending them to Canada for breeding purposes, a policy akin to slavery in that it treated people as if they were

animals.²³ His controversy with Gunnar Myrdal over eugenics is available only in Swedish (Carlson 1990). Heckscher's anti-racism also explains why he includes Wilberforce in his list of great nineteenth century economic liberals.

Paul Samuelson jibed that the Heckscher-Olin trade theory meant the end of such pseudo explanations of trade as "Yankee ingenuity." (Samuelson 1948) We focus briefly on his remark about Yankee ingenuity because here and everywhere Samuelson knew a great deal more than he revealed. He wrote briefly about T. N. Carver, former chair of several Harvard departments, including economics, who suspended his commitment to *laissez faire* to explicitly endorse Hitler's eugenic policies. Economists who knew about Carver's views rarely acknowledged his role in the anti-democratic right and, consequently, it has only recently become clear. In our larger work we will document the silence of the historians of economics about eugenicists, a silence that is ending only recently. (Peart and Levy 2013; Leonard 2016; Fiorito and Cosma 2017)

Near the middle of the century the Classical tradition of equal competence (homogeneity) was revived at Chicago, the London School of Economics, and by the Austrians. Not surprising,

²³ "Population policy bore the same stamp, the slave trade being in many respects only one side of this policy. The innumerable letters with regard to the populating of the French colonies with young girls, who were sent thither by shiploads, usually from Houses of Correction, but sometimes also young country girls, were almost of the nature of instructions for human breeding-studs. In the same breath mention is made of shiploads of women, mares and sheep; the methods of propagating human beings and cattle being regarded as roughly on the same plane." (Heckscher 1955, 2:300)

given that racial characterizations focused on intertemporal decision making, the question of time preference was central in the Chicago revival. In his 1931 review of Fisher's *Theory of Interest*, Knight voiced his skepticism about the common link supposed in economists' accounts between time preference and race (Knight 1931, p. 177). Here and elsewhere Knight, and after him George Stigler and Gary Becker, questioned myopic accounts of intertemporal decision making (Levy and Peart 2021). As the Chicago school revived the Smithian doctrine of homogeneity it also (and by no coincidence) revived the presumption of competence in economic and political activity.

Perhaps most dramatically Milton Friedman's theory of consumption explicitly assumed away positive time preference (Friedman 1957; Levy and Peart 2017). And the antiracial argument was made even more emphatically, perhaps, by Ludwig von Mises, something that needs to be stressed since for von Mises, positive time preferences was a *universal* feature of human action:

[The ethnologists] are utterly mistaken in contending that these other races have been guided in their activities by motives other than those which have actuated the white race. The Asiatics and the Africans no less than the peoples of European descent have been eager to struggle successfully for survival and to use reason as the foremost weapon in these endeavors. (1949, 85)

Stigler and Becker attacked the postulate of positive time preference (Stigler and Becker 1977) using the argument Stigler had made in his dissertation: positive time preference has no role in the making of abstract economic people. In this, Stigler remained a faithful student of Knight.

8. Rejecting the economics of discrimination: From Becker and Arrow/Phelps to Buchanan

The final episode we shall examine deals with more recent models of discrimination and racism. Gary Becker's discrimination theory was founded on taste, and, as such, discrimination seems to be covered by consumer sovereignty. (Becker 1957) Consumer sovereignty is an appealing presumption, and economists have long endorsed the notion that the tastes of consumers and producers are outside our purview: we take tastes as given and proceed. While this may be less controversial in the consideration of a shift in the taste for vegan foods over beef, since cattle ranchers, or their children, could grow soy instead, proposing a taste for discrimination without any associated claim about its repugnance, opens the work of economists to a charge of indifference about racial discrimination.

For Becker, people discriminate because of their tastes; they sacrifice material goods to satisfy this desire. For Arrow and Phelps, producers rely on racial stereotypes as a lower cost way of doing business. They discriminate because it is cheaper to rely on group stereotypes than to test for individual competence. Although Arrow-Phelps has largely replaced Becker's version because of its technical elegance as a piece of information theory, it has recently come into controversy. Rightly so, in our view. Arrow-Phelps appeals to efficiency and many economists, although certainly not Phelps himself, attach normative properties to efficiency.²⁴ An outcome of this line of thought may be that statistical (and actual) discrimination are justified in service to efficiency. Here, too, economists are open to criticism for being unwilling to acknowledge the

²⁴ Phelps (1972, p. 661): "Actually, I do not know (nor claim to know) whether in fact most discrimination is of the statistical kind studied here. But what if it were? Discrimination is no less damaging to its victims for being statistical. And it is no less important for social policy to counter."

immorality of discrimination and failing to consider that a stereotype might embody both antipathy as well as information.

Even more damaging to their standing is their too-ready presumption in the 1960s that Black outcomes were fully reversible if only Blacks would behave differently. Certainly behavior mattered; but so, too, did a long history of past discrimination and a set of institutions that worked against equality of opportunity. As noted below, James Buchanan eventually came to this realization. But it took time, and in the 1960s many economists were more in line with Stigler's opinion piece "The Problem of the Negro" (Stigler, 1965). In the piece, Stigler asserts that the solution to racial progress is mainly internal, for Black people to become more like Jews, to become bookish and cultivate the "ancient virtues of diligence, honesty and loyalty," (Stigler 1965, p. 12). Pursuing external things, school buildings or advocating quotas, are all mistakes.

From our perspective, the piece sheds light on two weaknesses of economics at this time. First, while many economists adhered to a stated doctrine of analytical egalitarianism ("homo economicus"), they failed apply the doctrine here and made an exception to suggest that Blacks in America are somehow lacking in the internal motivations for success. That unwillingness to apply his doctrine universally is deeply discouraging. Second, the attitude reflects a cavalier treatment of past injustices. For to suggest that Blacks should become more like Jews neglects their very different treatment in America. It was never a capital crime to teach Jewish children to read; Jews were never in a system that encouraged sexual usage and separation of family members; nor were they enslaved or subjected to systematic extrajudicial racialized terror and lynching. Yet this was the position of many economists at the time and since who have neglected the role of institutions and history as key determinants of economic outcomes and the difficulties associated with reversing these deep and entrenched effects.

We close with the reaction to Arrow-Phelps by Buchanan because it addresses the normative status of efficiency and demonstrates the importance of learning from Smith about the importance of being able to move from one occupation to another without impediment. The impediment Buchanan considered was the stereotype of a group. While Buchanan at mid-century opposed Court ordered desegregation, he later reformulated catallactics (Buchanan 1964) and came to reevaluate and counter that position based on his assessment that Black people had historically been treated unfairly (Buchanan 1981, 2001). By the time he delivered a pair of papers on affirmative action, he had departed from his former principle of fairness in which we do not know much of the content of fairness, to something closer to that of John Rawls (Levy and Peart 2020). In the first of the papers, he states a strong position, namely that competitive markets may violate the ethical principle of equal treatment for equals even in the absence of prejudice:

The example reveals, nonetheless, that the operation of a fully competitive market in the total absence of discrimination, defined in the standard [Becker's] manner, will violate one of the elementary precepts for justice or fairness, namely, equal treatment for equals. In order to achieve the satisfaction of this minimal criterion of justice, some "correction" of the play of market forces may be indicated, even if there may be no efficiency basis for adjudging markets to have failed (1981, p. 82).

The later paper, delivered in December 1979, explains this result. Here Buchanan emphasized the importance of luck in determining the distribution of goods in a market economy, a discovery he attributes to his teacher, Knight. From Rutledge Vining Buchanan learned about the need to think of a market economy as a stochastic process. After he notes his own good luck in the market economy (his career choice) (2001, pp. 316–317), Buchanan offers

a definition of the “fair chance” to which an individual is entitled:

Each person is insured that the claims to economic value assigned to him are determined by elements within *himself* and by chance factors that affect all persons *equally* (2001, p. 329).

The emphasis is Buchanan’s. His formal model of labor market equilibrium extends Phelps’s model and operationalizes Knight and Vining by specifying entitlements in a stochastic market economy. Buchanan’s concept of fairness now enabled him to overcome the difficulties of multiple equilibria associated with other treatments. Buchanan next notes that if a “fair chance” is part of the social contract, the Arrow-Phelps equilibrium *violates* the “fair chance” condition:

an entrant from the A group who makes precisely the same choices, who has precisely the same luck in the game itself, who, for a given wage, exerts precisely the same effort, will secure over his lifetime a net claim to final product value lower than his equal from the B group. He is effectively “penalized” by his membership in the group that happens to exhibit the lower average productivity (2001, p. 335).

Consequently, although the Arrow-Phelps equilibrium is profit maximizing, and so it is attractive to private owners of firms, Buchanan opposed this outcome. In the context of discussing two Supreme Court decisions that dealt with the legislative attempts to correct the consequences of racial discrimination²⁵— *Weber* and *Bakke* — he instead defended affirmative hiring programs because they enabled persons to be hired on the basis of their attributes rather

²⁵ *Bakke*, decided in 1979, addressed whether it was Constitutional to employ racial information in the admission process at state universities. Although the Arrow-Phelps model is applicable to any group, by citing *Bakke* and *Weber*, Buchanan clarifies that he is working in a racial context.

than (perceived) attributes of the group, its stereotype. As the 1981 paper is more programmatic we quote his conclusion:

In the operation of the fully competitive market, and with no preference for discrimination,²⁶ the analysis reveals that the equal-treatment precept is violated. The extension of the analysis shows that the enforcement of appropriately designed and appropriately limited hiring quotas could satisfy the equal-treatment precept. Neither discrimination nor reverse discrimination can be applied in a descriptively meaningful way to these two separate institutional arrangements, the fully competitive market on the one hand and the market as constrained by the suggested hiring-quota arrangement on the other. The failure to distinguish the satisfaction of the equal-treatment precept from the presence or absence of discrimination, forward or reverse, has been a source of logical confusion in the whole discussion (1981, p. 86).

Some of this is familiar to Buchanan's readers: for him, efficiency is not the fundamental norm. What is novel and less well-known is his defense of hiring quotas to counteract the stigma carried by a perceived stereotype of inferior productivity. Of course, Buchanan's discussion pertained to firm hiring rather than State action, and he distinguished between hiring and employment and promotion.

Not only did Buchanan publish these two chapters – the larger and later one of the two is included in the *Collected Works* – but he also wrote a letter (July 1980) to *Encounter* responding to a libertarian attack on affirmative action. The letter makes the case clearly to those who have

²⁶ Buchanan has now assumed away the taste-based discrimination (prejudice) explanation, associated with Becker (Becker 1957), that predates Arrow and Phelps.

read the statistical discrimination literature and Buchanan's definition of "fair chance."

Buchanan starts where Phelps does, supposing there are group differences and the stereotype is a cost-saving device to inform hiring:

But if the range of individual abilities in two classes intersect, as they surely do, members of the group or class characterised by lower average ability are not treated equally with their equals (defined as persons of equal ability when proven) in the other class. To secure employment at all, members of the class with lower average productivity must accept lower wages or assignment to a lower skill category.

Corrective policies designed to ensure equal treatment would require that class information not be utilised to predict individual abilities. One means of accomplishing such results might well be hiring quotas. Proportionality requirements in hiring do not amount to reverse discrimination, any more than disproportionality in hiring in the absence of such requirements amounts to discrimination. No preferential treatment, as such, need be involved in either case.

He maintained that individuals have the right to be treated as individuals, to be accorded a "fair chances." Consequently, he made room for affirmative State interventions on market activity:

To satisfy the equal-treatment norm, hiring quotas may pass muster. But giving all potential employees an equal ("fair") chance to "prove their worth" by equal opportunities to be hired is quite different from ensuring them equal chances to remain employed regardless of worth.

Buchanan judged the Arrow-Phelps equilibrium as both efficient in the usual sense *and unfair* because it violated an individual's right in the social contract to be judged as an individual rather than a member of a stereotyped group, a judgment that impeded occupational choice. As

he came to this realization, Buchanan defended an affirmative action in hiring to enable an individual's competence to be judged independently of the group's shadow. Buchanan is of particular interest as his earlier proposal (with Warren Nutter) to respond to Court-ordered school desegregation with a voucher system has become an occasion of considerable controversy. (MacLean 2017; Fleury and Marciano 2018; Levy and Peart 2020) In our view, Buchanan and Nutter were too willing in that work to endorse individual choice, knowing that the outcome would be continued support for segregation. But Buchanan later encountered Smith's *Theory of Moral Sentiments* and he increasingly worked out the implications of fully embracing Smith's theory of natural equals (Levy and Peart 2020). Perhaps there is great merit in more of us rediscovering Smith. Indeed, this is a major theme of our review.

9. Conclusion

The foregoing review spans close to 250 years and several continents. Recognizing this fact as well as our own limitations and biases, we close with some tentative considerations. It seems fair to conclude that on some occasions economists were more praiseworthy—to use Smith's term—than others. Here, we attempt to mark those occasions and then to answer the question, why? What made the views of (say) Smith and Mill such compelling and powerful agents of change while those of Arrow and Phelps were much less so? And is it the role of economists to advocate for change in any event?

What seems clear from the record is that the work of Smith through Mill was used, powerfully, as a means to advocate for needed institutional reforms. This was, indeed, the high point of race- (or, gender-) blind accounts that supported widespread calls for institutional reform. If slaves, former slaves, the Irish, or women were as capable as learning as Anglo-Saxon men, the argument followed, at the very least, institutions needed to allow and at best they

should foster that learning. Many of the reforms for which Mill agitated, in Parliament and in print, fit into this category: land reform, married women and property, expansion of the franchise, no fault divorce, and inheritance laws.

All of this reversed, as noted above, from the mid-century through roughly the mid-twentieth century. In those decades, darker ones for economists in our view, racialized views prevailed and economists waded into policy debates with calls to remake the population (eugenics) or remake tastes. Economists eschewed analytical egalitarianism and instead posited vaguely defined racialized categories of superior and inferior people. Institutions were now to be used in service of making the “inferior” act, and be, more like the “superior.”

Economists again embraced analytical egalitarianism at mid-twentieth century. They did so, however, in a way that greatly differed from the zealous reform-mindedness of Mill. Now, they posited homo economicus and they (mostly) divorced their analysis from history, learning, luck, or institutions, and focused their attention instead on efficiency and physical output. As the Civil Rights movement directed attention once again to racial concerns, economists pointed to tastes and information, rather than institutions, as ways to explain differential outcomes across races. As we have seen, Buchanan eventually came to question that thinking. The later Buchanan, now much more in line with Smith and Mill, endorsed a system of natural equality and called for institutional reform to correct for past injustices.

Smith’s system of natural equality presupposes the motivation of traders to move from one position to another, to better themselves according to their judgments of what constitutes better. What Mill and Buchanan saw, however, is that whatever the motivations are, sometimes Smithian-movements (or those where Friday leaves the island) are not possible: If history or present circumstances do not allow similarly motivated traders the options of moving from one

position to another, then perhaps this is a reason to advocate for reform. In the context of racial considerations today, this would suggest economists might take a sharp look at existing (and past) institutional structures such as policing and the judicial system.

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