

# Economists, Race, and Racism

## The Long View

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# Overview

- We explore economists' views on race and racism from Adam Smith's natural equality through the reactions to twentieth century models of efficient discrimination developed by Kenneth Arrow and Edmund Phelps.
- We consider 19<sup>th</sup> century debates in which “race” became a marker for “inferiority” and the debates centred on whether the “inferior” should be allowed to make political or economic choices.
- At the end of the 19<sup>th</sup> c and well into the 20<sup>th</sup> c, economists succumbed to racialized accounts of difference and advocated reduced choice for those deemed inferior.
  - The most terrible of these—slavery having been mostly overthrown—was the forced sterilization campaign of negative eugenics.
- We finish with how economists came to treat “race” after WWII.
  - Economists now began to theorize about how racial variations in outcomes might be explained by racism.

# Smith's Natural Equality

- Adam Smith's two claims
  - Children are indistinguishable
    - All type differences endogenous, e.g., the street porter and the philosopher
  - Everyone prefers a state that appears better to a state that appears worse
- In *Wealth of Nations* natural equality culminates in the theorem that in competitive equilibrium net advantages of employment are equalized
- We take natural equality as defining characteristic of classical economics
  - First aspect of natural equality important for coalition with evangelicals (Exeter Hall)
  - Second aspect of natural equality important to model trade

# Are all “races” capable of self-government?

- Take “government by discussion” as self-government
- Issue comes up in an imperial context
  - Ireland, India, Jamaica
- J S Mill involved in all three
  - Mill put forward institutional explanation for poverty
    - Ireland, Jamaica debated in public
    - Mill’s book for East India Company illuminates doctrine in *On Liberty*
  - Post-classical challenge to Mill and classical economics in general
    - W. R. Greg forgotten when avowed racism / eugenics became an embarrassment

# Mill's “Improvements in the administration of India during the last thirty years” 1858

- His assessment of when people *in colonies* are prepared for self-government:
  - 1. The rule of law is demonstrably and generally accepted in the polity;
  - 2. factional violence subsides.
- Reforms increasingly implemented via discussion
  - 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).

# Two views of racial explanations

J S Mill 1848

- 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).

W. R. Greg 1869

- “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.)

# Greg on Jamaica

- Natural equality is challenged
  - 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? . . . (1866, p. 279)
- Emancipation has failed
  - 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; . . . (1866, p. 279)

# Nature fails; eugenics enters

- Greg on Mathus' delay of marriage
  - 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.
- Quoted by Darwin in *Descent of Man*
  - Darwin (1871, p. 167) carelessly
- Reprinted in an economics reader at U of Chicago in 1912-18



# Devolution from self-direction

- Theme in Victorian popular culture
- Most successful Charles Kingsley's *Water Babies*
  - *Times* pointed out that it blended Carlyle and Darwin
  - Kingsley suggested the theological interpretation of natural selection in correspondence with Darwin
- Certainly not the only example
  - “Slavey” reference to Carlyle



"SLAVEY."

# Jevons on imperfect consumers

- Jevons's *Theory of Political Economy* solves for the equilibrium conditions of an imaginary, all-knowing consumer
- What about real people?
  - In his account, poor people and especially poor Irish people, were naturally prone to systematic error.
  - They under-saved, married poorly, underinvested in education, and acquired inferior tastes.
    - Positive time preference as a common failing.
  - These warranted a wide array of policy interventions to move people closer to his all-knowing, perfect consumer.
- Smith's natural equality accepts what appears better; Jevons does not

# *Mathematical Psychics* as a natural experiment

- Compare early part of the book with the latter part
  - The early part deals with trade; there is no trade in the later part.
- Edgeworth's adherence to natural *inequality* is clear in the latter part
  - He argues that the capacity for happiness varies such that “lesser” people's lifetime utility integrates to zero or below.
    - Endorses Galton's proposal to move them to celibate monasteries
  - Such a conclusion depends on an absence of sympathy

# What about trade?

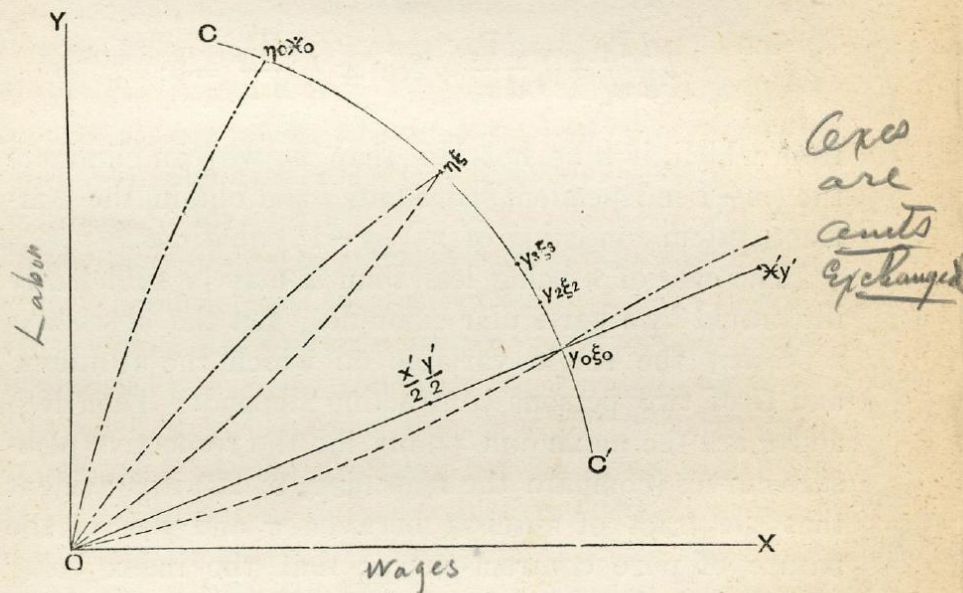
- Edgeworth's trading model supposes traders with the capacity to move to a situation that appears better to them from one that appears worse
  - This is the second aspect of natural equality!
  - Edgeworth makes clear the racial difference in his traders
  - If Robinson's offer is not good enough, Friday simply leaves to work for himself
    - There is no box to trap Friday
- The images are from Frank Knight's annotated copy



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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-

*no cost in book!*

*ments.* These settlements are represented by an *indefinite number* of points, a locus, the *contract-curve*  $CC'$ , or rather, a certain portion of it which may be supposed to be wholly in the space between our perpendicular lines in a direction trending from south-east to north-west. This available portion of the contract-curve lies between two points, say  $\eta_0 x_0$  north-west, and  $y_0 \xi_0$  south-east; which are respectively the intersections with the contract-curve of the *curves of indifference*<sup>1</sup> for each party drawn through the origin. Thus the utility of the contract represented by  $\eta_0 x_0$  is for Friday zero, or rather, the same as if there was no contract. At that point he would as soon be off with the bargain—work by himself perhaps.

# Modern theories of 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.
    - Does this presuppose producers (or their children) could shift?
    - Doesn't this open economists to the charge of an indifference to repugnant choices?
- Becker's discrimination is a costly act



# Efficient (Statistical) Discrimination

- Arrow (1971) Phelps (1972) take racism to be efficient use of information
  - Stereotype taken to be an estimate of a group's properties
  - It is more efficient to use a group's stereotype than test individuals
- Phelps is clear that discrimination victimizes
  - “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.” (Phelps 1972, p. 66)

# Buchanan on Phelps equilibrium

- James Buchanan spent decades working out what is a “fair” in a stochastic market equilibrium
  - 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).
- Consider Phelps equilibrium:
  - 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).
- Buchanan finds it unfair to treat individuals as members of groups
  - 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.

# Conclusion

- The history of economics is one of continual confrontation with race
- It is a history many would prefer to forget
- If we forget our history we forget the struggles with racism
  - If we believe economists of the past our equals we have a duty to remember